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ANNUAL REPORT OF THE POSTMASTER GENERAL

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

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ANNUAL REPORT OF THE POSTMASTER GENERAL

WEDNESDAY, APRIL 25, 1984

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The committee met at 10:04 a.m. in room SD-342, Dirksen Senate Office Building, Hon. Ted Stevens presiding.

Present: Senators Stevens and Sasser.

OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Good morning.

We are here this morning in compliance with section 2401(g) of title 39, United States Code, requiring the U.S. Postal Service to submit a written comprehensive statement of their operation and for the Postmaster General to appear in person to present this report to the U.S. Senate.

We on this committee are keenly interested in the operation and plans for one of this Nation's most important Federal agencies. The U.S. Postal Service is a semi-independent agency which receives no taxpayer support for its operations. In short, it is an agency unlike most, if not all, other Federal agencies in the degree of independence. This committee does have legislative jurisdiction and oversight responsibilities and intends to fully exercise that obligation.

We do not intend to second guess the day-to-day operation or every Postal Service decision affecting the over 30,000 post offices throughout the Nation. But, we do expect the Postal Service to be responsive to various national and even specific local problems that exist.

I particularly want to welcome my good friend the Postmaster General, William Bolger, who is appearing before us. If rumors we hear are correct, this may be the last occasion you will be giving us your annual report. For the record, in my opinion—and I have been on this committee now for 16 years—you have been the most outstanding Postmaster General that I have known and I believe that the Nation has known. You brought us through a very troublesome time. And if it is correct, of the other rumors that I hear, you are going to end up with a surplus this fiscal year. That means that 4 out of the 6 years you have been the Postmaster General the Postal Service, despite its declining assistance from the Federal Government, has ended up with a surplus, at least something in the bank to carry over until the next year.

Even if you don't make it, batting .500 still isn't that bad.

My staff tells me the last surplus prior to your being Postmaster General was almost 40 years ago.

Mr. BOLGER. 1945.

Senator STEVENS. It is not just you, I think it is the people that worked with you and the thousands of postal employees throughout the country that have worked with you in your positive approach. You as Postmaster General deserve the success that you have achieved. We are pleased to have you here. I expect others will be with us as we go through your report.

TESTIMONY OF WILLIAM F. BOLGER, POSTMASTER GENERAL, U.S. POSTAL SERVICE, ACCOMPANIED BY HAROLD HUGHES, ACTING GENERAL COUNSEL, U.S. POSTAL SERVICE

Mr. BOLGER. Thank you for your kind and generous statements.

The Postal Service is a team service—600,000 employees every day trying to process and deliver huge volumes of mail on time. The results are evident. I have a complete statement to submit for the record. I would, with your permission, like to summarize my statement.

Senator STEVENS. Thank you.

Mr. BOLGER. Mr. Chairman, I am here to present oversight testimony in compliance with a provision in the Postal Reorganization Act. The key points which I would like to discuss with you today are our financial record, collective bargaining, safety, automation, and the employee involvement process.

The Postal Service ended the fiscal year in the black. The net operating income for fiscal year 1983 was $616 million. The previous year it was $802 million. In 1979, the Postal Service posted a net surplus of $470 million, which means we have had surpluses in 3 of the last 5 years. As far as the current fiscal year is concerned, we had anticipated a deficit of $800 million, but we are doing much better than we thought we were going to do. Through the last accounting period, we had a surplus of $439 million. I don't know if we can come out in the black again in fiscal year 1984 but it is going to be very, very close.

It will depend on if we can keep on going the way we are going. We are looking forward to achieving that goal. The current estimate is that we may have a deficit as high as $400 million. I personally don't believe we are going to be that badly off. I think we can come close to breaking even or having a slight surplus if we luck out and a lot of things we are expecting happen in the Postal Service.

The results in 1983 were attributable to many of the positive trends in the economy that were apparent in fiscal year 1982, such as the continued improvement in the rate of inflation which kept labor costs $210 million below plan and fuel and energy costs $21 million less than the amount budgeted. In addition, we are recording higher volumes of mail and increasing our productivity.

We also improved our on-time performance for overnight delivery of stamped first-class mail. For the fiscal year, it was 96 percent, which translates into a 1-point increase over last year. The figures for fiscal year 1984 are not as impressive, as we have had several weather-related problems around the country in January

and February. Very frankly we had an increase in volume over what we expected and this has not helped the matter. However, our service is now moving up to the 1983 levels of performance.

We are also witnessing a virtual explosion in mail volume, and it looks like we may hit the 128 billion mark this year—up more than 7½ billion pieces over 1983.

Our costs, however, continue to rise, and a request for a general rate increase was filed with the Postal Rate Commission. Although it was originally anticipated that new rates would not go into effect before October of this year, the Board stated on March 6 that it now expects that it will not have to implement a general rate increase before early 1985.

In a recent policy statement on wage negotiations, the Board of Governors declared, among other things, that wage negotiations should be a joint venture designed to promote the present and future value of the Postal Service as a service with sufficient cost control to be competitive over the short and long term. I share those sentiments, and I believe that most postal employees do also. In these negotiations, my aim is to achieve a contract that is fair to mailers, fair to our employees, and fair to the American public.

We started negotiations with four of our major unions yesterday.

Late in 1983, we received the President's Occupational Safety and Health Award for 1982 in the large agency category. The major reasons for our improved safety record were increased safety awareness and training, and the successful activities of joint labor-management safety committees.

Automation, ZIP+4 and proper addressing is without a doubt one of the Postal Service's most important programs. It will provide the Postal Service with increased productivity and reduced postal costs. For our customers it will improve service by making deliveries more consistent and reliable. Over the long haul it will give greater stability to postage rates.

We have two categories of reduced rates for those who voluntarily use the ZIP+4 Code: a one-half cent rate discount for those using ZIP+4 on first-class presorted mail in quantities of not less than 500 pieces, and a nine-tenths of 1 cent discount on nonpresorted first-class mail, bearing the ZIP+4 and mailed in quantities of 250 or more pieces.

Mailers, however, began to have difficulty matching 100 percent of their address records with the ZIP+4 Codes. This occurred because address files do not always contain complete and proper records, which makes the matching process more difficult.

To solve this problem we changed our regulations, effective February 1, 1984, giving our customers a 20-month transition period during which they can combine 5-digit coded, presorted mail with presorted ZIP+4 mail.

The mailing industry's response to this new commingling regulation has been extremely enthusiastic, and as a direct result we have seen companies like PEPCO and Pittsburgh National Bank begin using ZIP+4 Codes. There are some 50 private companies offering some type of ZIP+4 address matching service who have told us they are braced for a flood of new ZIP+4 customers.

To be ready for these new customers, the Postal Service has made a massive commitment of resources to postal automation,

representing one of the largest capital outlays in the history of the U.S. Post Office—some $800 million.

We project that by the late 1980's, if we can reach the point where 90 percent of machinable first-class letters bears the ZIP+4, we can save more than $900 million a year in labor costs alone.

In the employee involvement process, the Postal Service made progress in 1983 in its employee involvement/quality of working life process. Three of our four major unions have been working with us to develop a process that will enable employees to help solve problems at the worksite. Our goals for the process are to improve labor/management relations and the quality of life of our employees at work.

This concludes my prepared statement. I will be pleased to try to respond to any questions you may have.

I am accompanied today by Harold Hughes, our deputy general counsel, who is now the acting general counsel.

Senator STEVENS. I thank you and we will print the full statement in the record.

I have a series of questions, but first, Senator Sasser, do you have an opening statement?

OPENING STATEMENT OF SENATOR SASSER

Senator SASSER. Mr. Chairman, I do and I very much appreciate your giving me the opportunity to deliver that this morning.

General Bolger, it is good to see you this morning and we are delighted to have you back before the committee. Over the years, I have been impressed with some of your management skills that you have exercised at the Postal Service. We have often pointed with pride—and I think justifiably—at some of the economies that you have been successful in effecting within the Postal Service. Some of these measures have no doubt saved money for postal patrons.

It has become evident to me, however, that some of these measures have worked only at the expense of postal patrons and postal employees.

I have received numerous complaints in the last few months from our Tennessee constituents about postal operations. They center primarily on two areas of concern: Employment discrimination and the Postal Inspection Service.

Now, General Bolger, I have been led to the conclusion that many of the complaints that I described are, in my judgment, entirely justified. Our investigation of the complaints indicates that they are not confined just to the State of Tennessee. I think what we are dealing with here may be a problem that is nationwide in scope. For example, I have received many complaints that people are not able to get the postal authorities to investigate check thefts from their mailboxes. Older people have called my field offices and say that their Social Security checks have been stolen from their mailboxes, they desperately need help, or their payments to their creditors are stolen routinely. They call the Postal Inspector and are told by the Postal Inspectors to call the local police departments.

And the local police departments, in turn, when they are called, in a sort of catch-22 response say: Well, the theft from the mailboxes is a Federal problem and the victim should call the Postal Inspector.

Well, I wanted to know why this sort of situation occurred and I was shocked to learn that it occurs quite regularly because of an official policy of the U.S. Postal Service.

In 1982, the Postal Service made a priority of check theft cases that involved large conspiracies and large amounts of money. Now on the surface, it doesn't sound like a bad idea to go after the large conspiracies that involve substantial amounts of money. But the upshot of this policy has been that single check theft cases simply don't get investigated. And this occurs especially in rural areas.

Now, to my mind, this is tantamount to the police department's declaring that they are not going to investigate rape cases, perhaps, unless they are gang rapes, or the FBI's suddenly saying: Well, we are not going to investigate bank robberies unless the banks have deposits of $100 million.

Now, meanwhile, the Postal Service has instituted a Career Path Program that has led the careers of many experienced Postal Service Inspectors to early retirement or led them into other lines of work.

What has been the upshot of all these measures? In the last 5 years the information that I am furnished indicates that the number of convictions of postal crime suspects has dropped by 75 percent on a nationwide basis.

The pattern is sadly repeated in complaints of age, sex, and race discrimination. Such complaints have increased dramatically, up 83 percent in the past 5 years with complaints of sex, age, or race discrimination in the Postal Service.

My staff has been informed that the Postal Service does not consider the rate of EEOC complaints unusual, for example, in the Knoxville district. That rate, I am advised, is 5 or 6 complaints of discrimination each 2-week pay period, and that district employs 800 people.

An independent consulting firm estimated that last year the cost to the Postal Service alone of processing discrimination complaints amounted to $50 million. It would take the sale of a quarter of a billion first-class stamps to cover that cost.

Now, taken together, these problems, I think, represent a matter of concern, a matter of grave concern.

Now, Mr. Chairman, at the appropriate time I have some questions that I want to propound to the Postmaster General. Thank you for allowing me to present this opening statement.

[Senator Sasser's prepared statement follows:]

PREPARED STATEMENT OF SENATOR SASSER

Thank you, General Bolger, for your time and courtesy in joining the committee today. I have been impressed over the years of your tenure by some of your management skills. You have often pointed with pride—justifiably, I think—at some of the economies you have effected within the system. Some of these measures have no doubt saved money for the postal patrons.

It has become evident to me, however, that some of these measures have worked only at the expense of postal patrons and postal employees.

My staff and I have received numerous complaints in the last few months from our Tennessee constituents about postal operations. They have centered primarily on two areas of concern, employment discrimination and the Postal Inspection Service.

General Bolger, I have been led to the conclusion that many of the complaints I describe are entirely justified. Furthermore, our investigation of the complaints indicates that they are not confined to Tennessee. I think we are dealing with a problem nationwide in scope. For example: I have received many complaints that people are not able to get the postal authorities to investigate check thefts from mailboxes. People lose Social Security checks they desperately need. Their own payments to creditors are stolen routinely. They call the postal inspectors and are told to call their local police departments. The police, in a sort of Catch-22 response, say it is a federal problem and the victims should call the postal inspectors. I wanted to know why this sort of situation occurred. And I was shocked to learn that it occurs regularly because of an official policy of the United States Postal Service.

In 1982, the Postal Service made a priority of check theft cases that involved large conspiracies and large amounts of money. That didn't sound like a bad idea, but the upshot of the policy has been that single check theft cases simply do not get investigated—especially in rural areas. This policy, to my mind, is tantamount to a police department's declaring that no rape case will be investigated unless it is a gang rape. Or to the FBI's suddenly deciding not to investigate bank robberies unless the banks have deposits of, say, $100 million or more.

Meanwhile, the Postal Service has instituted a "career path" program that has led the careers of many experienced postal inspectors to early retirement or other lines of work.

And what has been the upshot of these measures? In the last five years, General Bolger, the number of convictions of postal crime suspects has dropped by 75 per cent nationwide.

The pattern is sadly repeated in complaints of age, sex and race discrimination. Such complaints have increased dramatically—by 83 percent—in just two years. My staff has been informed that the Postal Service does not consider the rate of EEOC complaints unusual in the Knoxville District. That rate, General Bolger, is five or six complaints each two-week pay period. The district employs some 800 people.

Mr. Bolger, an independent consulting firm estimated that last year, the cost to the Postal Service of processing those complaints amounted to $50 million. It would take the sale of a quarter of a billion first-class stamps to cover that cost. That is an outrage.

Taken together, these problems seem to me to represent a pattern of neglect, if not mismanagement, by the top officials of the United States Postal Service.

Now, if I may ask your indulgence for a few minutes, I have some questions for you which, I hope, will begin to shed some light on this disturbing situation.

Senator STEVENS. We are glad to have your opening statement.

There are other Senators who may come. Why don't we put a 10-minute time limit on questions for all Senators, including myself. After I have completed my 10 minutes, I will yield to you and if anyone else comes in, we will work that out. I do have some questions.

My first question is about the surplus. As I understand it, Mr. Bolger, in 1983 you had a $616 million surplus and there is some indication that we may see a surplus for this year. However, that remains to be seen, as we all know.

It is also my understanding that your payroll is about $1.5 billion a month, is that about right?

Mr. BOLGER. That is about right.

Senator STEVENS. So the 1983 surplus was about a 15-day margin.

Mr. BOLGER. That is right.

Senator STEVENS. On payroll alone.

Mr. BOLGER. A little bit less than that.

Senator STEVENS. In other words, we shouldn't get too excited about those figures. It is like Everett Dirksen would say, "A billion

here and a billion there, pretty soon we are talking about real money."

It is this possible surplus that I am interested in from the point of view of what it might mean to a possible rate increase. What will the impact of a surplus be on any rate increase and what do you see as far as projections for a rate increase?

Mr. BOLGER. Basically there is a difference between our profit and loss statement and our cash flow situation. When we first filed this rate case in November 1983, we projected that we would need additional income to avoid losses, since we are supposed to live within our income, sometime in 1984. Our improved financial position means that we can now go with rates no earlier than early in 1985. We are probably talking in the first couple of months of 1985, somewhere in that area. This is how we return the dividends, if you will, to our shareholders. We prolong our current rates for longer periods of time.

We have been working under an operating plan to have our rates stable for at least 3 years, we have been successful in that a couple of times. The current rates, if we go to early 1985, will have remained stable for 4 years because most were increased in March 1981. Our international rates went up in January 1981 so it will be at least 4 years for those because they won't go up any sooner than 1985.

Beyond that, I would hope that we can take this 3½- or 4-year period that we are talking about now and hopefully, with this next round of rate increases, if we do our job properly, controlling our costs, and extend it to 5 years. Maybe we can look to 1990 or even later than that before we see another postal increase. That is what we have been trying to do and I think we have been reasonably successful.

Senator STEVENS. I appreciate that. When I am out and around the country and people ask me about postal rates, I like to tell the story about what happened to me in Denver recently. When I was in the Denver airport with my wife and child—the Senator from Tennessee might have the same experience some time so I will warn him to look in his pocket first. Anyway, I went into an ice cream shop to get an ice cream cone, and it has been a long time since I have done that. I ordered two scoops and I reached in my pocket and found I had 95 cents and found out that the two scooper was more than $1. I like to remember, Bill, when we used to pay a nickel for an ice cream cone—that was about the same time we paid 3 cents for a postage stamp. You are up to 20 cents and you are going up to how much for the increase?

Mr. BOLGER. Twenty-three cents.

Senator STEVENS. My ice cream cone cost a nickel or 10 cents for a double scoop in those days, but now it is well over $1 for a cone.

I think that the rising costs of other items or the things that people forget in terms of the inflationary periods we have come through, is the fact that productivity has kept your rates down. None of us like to see this postage rate increase coming but I do think we have to keep in mind the increased cost of everything else.

Mr. BOLGER. On top of that, we are no longer receiving a public service subsidy. A considerable portion of the Post Office Depart-

ment's income came from taxpayers' subsidies to support the 8-cent rate. That last Post Office Department budget was $8 billion, with appropriation subsidies amounting to $2 billion or 24 or 25 percent. We no longer have that.

Senator STEVENS. I do have a question that I am very concerned with and I hope that the Senator from Tennessee doesn't mind, as it does pertain to Tennessee. We have been informed of a Tennessee court decision that struck down a rule which distinguishes between second-and third-class newspapers. That rule required that in order for newspapers to be eligible for second-class mailing permits, 50 percent or more of the recipients must have requested or actually subscribed to the publication. It is my understanding the Tennessee court has knocked that down. This decision could have substantial impacts on what I would call handout types of papers as opposed to the periodicals that are actually ordered by the recipients.

What do you plan to do about that decision?

Mr. BOLGER. We have asked the judge to reconsider his decision. The publishing industry, both the people that circulate free publications and those who circulate to paid subscribers, believe the 50-percent rule should be retained. At one point in time, I suggested that we may not need these rules from an operational point of view and published a notice along those lines in the Federal Register. I found out that our customers in the publishing industry need these rules and as a consequence I did not alter the rule at all.

In our opinion our customers need these rules.

There is a constitutional question involved here too, and I will let our learned attorney make further comment.

Senator STEVENS. Mr. Hughes?

Mr. HUGHES. Thank you, Senator.

The court based its ruling in part in the equal protection clause and the first amendment. Those portions of the ruling that are based on the first amendment or the equal protection clause of the Constitution concern us a great deal because all of mail classification is based on reasonable distinctions among matter which often includes first amendment material. And yet, the classification criteria at issue in this case support classification in other areas and have been in existence in many instances for over 100 years.

Senator STEVENS. It seems the court forgot about me, the subscriber. When I order a newspaper and I agree to pay for it, I am the purchaser, as compared to the publisher. When the publisher decides to send me a paper, whether I order it or not, it is at his cost. When I order a paper it is at my cost. We are worried about this case, especially in rural States.

Mr. HUGHES. We think that is a valid distinction upon which to base classifications and we think that is the issue in this case. For that reason we are asking for reconsideration and asking the court to give some weight to this long-standing practice.

Senator STEVENS. I appreciate that.

I see my 10 minutes are up, Mr. Postmaster General. Thank you, Mr. Hughes.

Senator Sasser?

Senator SASSER. Thank you, Mr. Chairman. And you saved me from answering that question about the ruling of the Tennessee

court. I have a hunch we heard from some of the same people about that problem.

General Bolger, I have a copy here of a letter written by a U.S. attorney in Tennessee, a veteran U.S. attorney who served, I think, 8 years as an assistant U.S. attorney and the past 3 years as the U.S. attorney. And quoting from that letter, this U.S. attorney says,

> The personnel policies instituted by Chief Inspector Kenneth H. Fletcher have, in my opinion, been an unmitigated disaster. They resulted in the loss of many experienced postal inspectors, either through outright resignation or transfers to other positions outside the Postal Service.

Going on, this U.S. attorney says,

> At the present time I have a significant case involving wire and mail fraud. I am requesting that it be investigated by the Federal Bureau of Investigation because I can't count on the Postal Inspection Service to have an investigator in one place long enough to complete the investigation. The same is true with many postal theft cases.

Based on this U.S. attorney's complaint, General, I have to wonder if the Postal Service has not reduced its commitment to investigating postal crime.

Would you like to comment on that?

Mr. BOLGER. We have not reduced our commitment and I think the assistant U.S. attorney——

Senator SASSER. He is not assistant. He was assistant for 8 years and then was elevated to U.S. attorney when President Reagan was elected.

Mr. BOLGER. Whatever his title is. I read that same letter. I looked into it and found that his conclusions were based on personal acquaintanceships with some of our postal inspectors who were being transferred out of Tennessee and were not based on facts at all. I will be happy to pursue that further with the Department of Justice if we have anything lacking in investigative work being accomplished in the State of Tennessee or anyplace else.

However, I think we have had no letdown in our attempts to investigate crime. We had to put some priorities into place. We still will take any investigation, any single instance and investigate it, but with our 1,846 inspectors we have been trying to concentrate on the best way to eliminate or prevent crime from happening internally in and externally to the Postal Service. We set some priorities. Yes, a single check missing in the mail is important to us. But, more important are the gang-type check thefts where we can do more with less effort on the part of our limited work force, get more perpetrators of crimes, and accomplish more in the way of prosecution.

I think sometimes we get mixed up in statistics. We think if we have 1,000 cases prosecuted, that is the statistic to reach for. On the other hand, you may only get one prosecution that might eliminate 5,000 crimes. I think this is much more important to approach it that way. It isn't a single crime that might be happening in the mail service. Whether we are talking fraud, whether we are talking check thefts, whether we are talking narcotics moving through the mail, they all are significant to us. Sometimes we can't do all of the investigative work for all of them with the limited work force we have. I think we could respond if we wanted to and possibly in-

crease our inspector force 5- or 10-fold, but I don't think that is the right thing to do. Mr. Fletcher, and other inspectors who have supervisory responsibilities in the Inspection Service, would be very pleased to get into details of these things with you or your staff in a committee investigation such as this.

I think our approach in the Inspection Service in trying to prevent crime and to investigate incidents of crime is a good one—outstanding—and probably one of the best law enforcement programs in this Nation.

Senator SASSER. General Bolger, I was astonished to learn from Postal Service documents that the Inspection Service investigates only 1 out of 10 reported postal crimes. Does the Postal Service think the investigation of 1 case in 10 is adequate service to the postal patrons? Is that adequate investigation of postal crime, to investigate 1 out of 10 postal crimes?

Mr. BOLGER. You said yourself in your opening statement we cooperate with local and State enforcement officials. While we may not be directly investigating all those crimes—theft from a mailbox, destruction of a mailbox—we are cooperating. It may not show in the record we are directly cooperating, but we are cooperating with local, State, and other Federal enforcement officials and getting this crime investigated and bringing the perpetrators to prosecution.

Senator SASSER. When people call the Postal Service to report a crime of the theft of the check, they are told to call the local police department and then they call the local police department and they get into a catch-22 situation of being told that is a Federal crime, call the Postal Service.

Mr. BOLGER. I don't think it happens that way. People may report it that way but, in general, it doesn't happen that way. Our inspectors take note of these things and follow through on them. I have never known our postal inspection officers anywhere in the country to slough off their responsibilities. It has been and is one of the finest parts of our institution. It has that reputation not only with people in the Postal Service but throughout the country. In the Federal court system, they are recognized as highly responsible investigators and they do the job very well.

Senator SASSER. The source of some of my dissatisfaction is that I kept hearing that the spirit in the Postal Inspection Service is being destroyed and that the morale of the postal inspectors is at a low level and that the Service is not functioning presently as it has done in years past, in decades past.

For example, the transfer policies, transferring these postal inspectors around. The transfer policies of Chief Fletcher through this Career Path Program that he is advocating have been very expensive. The Postal Service itself reports that since 1980 relocation costs for postal inspectors have risen by 37 percent, to $3.4 million in a single year. This has been expensive and many say it has virtually destroyed the productivity of the inspectors. In the last 10 years, for example, in my State of Tennessee, which I am familiar with, the average number of cases handled by one inspector had dropped by 50 percent and in 5 years the number of convictions of postal crimes has dropped by 75 percent. Now, I know you are going to say, well, we don't have as many convictions but we are investigat-

ing more cases or as many cases but statistics indicate just the contrary.

Now, given this track record, do you think the Career Path Program is now or ever was a good idea?

Mr. BOLGER. Yes, I do. You call it Ken Fletcher's program. Ken Fletcher works for me and he came to me with this program and I agreed with it. As far as inspectors being transferred around the country, I have been with the Postal Service for 43 years and it has been a long-established policy known to the inspectors when they are assigned that they are subject to transfer at our direction wherever we need their skills. That is the case now.

The Career Path Program really reduces the incidence of transfers on a long-term basis. It requires you to stay in some of our metropolitan areas for at least 5 years, thereby eventually reducing transfers. I think the Career Path Program is good.

Now you talk about morale in the Postal Inspection Service. I know the Postal Inspection Service. I see inspectors all over this country every day. Whenever I am in an area, there are postal inspectors assigned to me. I talk to them. This morning before I came here I had breakfast with the management conference of the Inspection Service. They are in here from all around the country and I talked to them about their activities. I know that we are doing a better job to ensure good careers for postal inspectors. Yes, sir, we have transferred some people out of Tennessee or they have refused the transfer. We transfer them out of other States too. There has been a noticeable transfer out of Tennessee because a lot of younger inspectors are there. They know their obligation. That is part of their development program. I know that with some of these junior inspectors going out of Tennessee and other areas, more senior, more experienced inspectors that have completed their years in metropolitan areas are going into smaller, less metropolitan areas to work. They have a lot of experience. I think that you have to let a program like this work. It is only a couple of years old and it will work better in the long run. There are always some problems as it is developing. But, on a long-term basis this is going to prove a better thing for the Postal Inspection Service, the Postal Service, and the customers we serve.

Senator SASSER. My time is up, Mr. Chairman, and I have some more questions.

Senator STEVENS. I am reminded that we had a little problem some years ago when the Inspection Service office was transferred from Chattanooga, TN, to Atlanta, GA. Does that have anything to do with the statistics that the Senator mentioned?

Mr. BOLGER. Statistics can be deceiving. It was mentioned that the Inspection Service in Tennessee in the last 10 years and other places are handling less cases. They are handling less cases but they are handling more important cases. We used to require an inspector 10 years ago or 12 years ago to audit all of the small post offices in his or her territory every year. We found out that was doing too much auditing. You don't have to do that. We have one of the big eight accounting firms as our external auditors and they agree with us. You can do a random-sample audit and accomplish just as much and let these people not only get involved in audit but

concentrate more on crime prevention and investigation of external and internal crimes. It did cut down the numbers.

Senator STEVENS. I want to get to another issue that has been raised by other members of the committee.

I understand the Postal Service has recently agreed to purchase the aircraft that is under lease to the Postal Service. I requested and received a letter of April 18 concerning the reasons you have for having authorized the purchase, but I would like to get that on the record here. Maybe I would put the letter from you in the record at this point and have you summarize it. But I do think you ought to have a statement for the record. I should say before you respond that I am not critical of this decision. You and I discussed this issue at length before the decision was made and I do support the fact that the Postal Service needs an aircraft, but I would like to have it on the record.

[A copy of the letter from Mr. Bolger to Senator Stevens follows:]

THE POSTMASTER GENERAL
Washington, DC 20260-0010

April 18, 1984

Honorable Ted Stevens
Chairman, Subcommittee on Civil Service,
Post Office and General Services
Committee on Governmental Affairs
United States Senate
Washington, D. C. 20510

Dear Ted:

Following five months of successful utilization of the leased Cessna Citation II, I recently authorized the purchase of it. This letter provides you with my reasoning for doing so.

Use of this aircraft has significantly extended my ability, and that of my executive staff, to travel flexibly and efficiently to an increasing number of customer gatherings and field management meetings.

It remains clear that commercial schedules cannot provide the breadth of service which we are now enjoying. For example, I recently was able to address a morning meeting of major customers in Key West, meet with West Palm Beach area postal officials and employees that same afternoon, and was back in the office shortly after 5:30, where I continued my work. On another recent occasion, in a single day, I traveled from Washington, D.C. to Little Rock, Arkansas, to address a gathering of postmasters at 9:00 a.m., then I returned to the East Coast in order to accompany a congressional tour of postal facilities in New York City that afternoon.

During the five-month lease period, the Postal Service paid $40,730 per month for the leasing arrangement and, in the process, accumulated approximately $100,000 in equity which was applied to the purchase price of $1,650,010. In addition to this leasing cost, the following operational costs were incurred. The hours used and dollars spent by others indicate charter usage by those other than the Postal Service enabling us to recover some basic operational expense.

Month	Hours Used	Dollars Spent
November	35 USPS	$26,789
	6.8 others	5,610
		20,797
December	19.1 USPS	23,370
	22 others	18,112
		5,258
January	16.3 USPS	22,607
	15 others	9,250
		13,157
February	28.2 USPS	23,015
	11.7 others	9,656
		13,359
March	38.7 USPS	38,631
	16.4 others	13,530
		25,118

The original determination that the Cessna Citation II was the type of plane which best fit our needs has proven to be correct. Members of my staff who are knowledgeable in the aviation field considered numerous alternatives and questions, including whether to charter, lease or purchase; whether to consider both new and used models; what types of equipment and configuration would be required; the general capabilities for which the aircraft would need to be certifiably proven, and cost.

All of these considerations pointed to the Cessna Citation II, which among other things, has one of the lowest operating costs of any business jet, a lower original cost, and the availability of service centers around the country.

Be assured that this purchase was given careful consideration, and I am convinced that the Cessna will prove to be an increasingly valuable asset to the Postal Service.

Sincerely,

William F. Bolger

Mr. BOLGER. I decided that we would purchase this aircraft. We had a lease with an option to purchase up to 6 months. At 4 months, after looking at the expense of the 3 previous months, I decided it would be in the best interest of the Postal Service to purchase that particular aircraft. We had an option to purchase at $1.7 million, less the amount we had spent during 5 months leasing it which was $100,000, so we purchased it for $1.6 million. I had an estimate made of what its resale value would be, and they came up with a figure of $1.8 million. In my opinion it was a good buy for the Postal Service.

Also, we hope to recover a good deal of our cost by chartering the aircraft for use outside the Postal Service when it isn't needed by us, such as to another Federal agency and people in the private sector. So far the ability to charter that particular aircraft has proved satisfactory.

Senator STEVENS. How do you handle that charter?

Mr. BOLGER. When we bought the aircraft, we decided not to try to become a new Air Force of the U.S. Government so we are under contract with a concern called U.S. Jet. They crew it for us, they maintain it for us, they charter it and recover the cost of the charter for us. They do all the management of the aircraft and seven others. I found this more satisfactory. Also, having this arrangement with U.S. Jet, if we need an aircraft of our own or another one, we can get one on a 2-hour notice, 7 days a week. I find this a very satisfactory experiment and I think it will be a satisfactory and continuing experience for us. Any time I thought it was going the other way I would yank it and put that aircraft up for sale. What we intend to accomplish is saving executive time, letting us do more postal business. Very frankly, I do a lot of traveling and make a lot of speeches and did a lot of waiting around before that aircraft. I have just about increased my own workload away from Washington by about 33 percent.

Senator STEVENS. I think it does increase your efficiency even though you didn't bring it to Alaska.

Mr. BOLGER. Well, Senator, that is out of its range.

Senator STEVENS. I wanted to put your response in the record. One other word concerning Alaska.

We get more and more complaints about the problem of the use of the mail for the purchase of illegal narcotics. I hear it from parents that their kids are ordering drugs through the mail. What can you tell us here, that can be disclosed in a public hearing, as to what you are doing to assist other law enforcement agencies, Federal, State, and local, to combat the use of the mails for the transportation of illegal drugs throughout the Nation?

Mr. BOLGER. We are doing a great deal in cooperative efforts with all of the law enforcement agencies. I think the best recent experience that we are able to publicly discuss is our experience in Hawaii where a lot of marijuana was shipped to the mainland in the mail service. We built a case, we developed what we thought were the proper suspects, we made the arrangement to set aside some mailings that were coming from these people and we found that our investigations were justified. We found in one case, where we had sampled 200 parcels that we had set aside, that just about every one of them contained marijuana.

We have been working with the Customs people for many, many years, trying to eliminate contraband from entering the United States from foreign destinations. We are finding that more and more is originating from domestic points. We are concentrating more heavily on that. That is what I mean by taking the resources you have available in your investigative force. Maybe you have to let some things take a back seat compared to where they were before, but you are concentrating on something more important. We see this evidence of narcotics moving through the mail and unfortunately, we see evidence of postal employees involved in their duties moving narcotics through the system. It has taken extra inspectors to concentrate on those activities and perhaps an incident of a missing check in the mailbox has to take a back seat. It is concentrating on something more effective to serve the American public.

Senator STEVENS. I don't know of anything that will garner greater support for your and the Postal Service's efforts, in general, than having more information come out as to what you are doing to try and control the distribution of illegal drugs through the mail.

I told you, I was out in some of the real small villages of Alaska and found parents completely irate that somehow or other kids had found out how to order drugs by mail, and it is difficult for parents to control illegal drugs when it comes via the U.S. mail. I would hope that there is some way that you can increase your efforts in that regard.

Mr. BOLGER. We will be. This is some of the information I really wouldn't care to disclose publicly today. We are going to increase our efforts in that regard because it is a serious problem. We are not just talking about adults or teenagers, it is beyond that. It is something we have to work very hard at and I think we have the force that can do it.

Senator STEVENS. On one other subject before I turn the questioning back to my friend from Tennessee. The leasing policy of the Postal Service, as I understand it—and I am talking about leasing facilities—is to negotiate leases for a 10-year period with two 5-year options to continue that lease. We have been told that this is very difficult for the local or small entrepreneur to handle and they wonder why the term has to be so long. Is there an escalator clause, what we would call a deflator, in your contract so there is periodic adjustment before the end of the 10 years as far as rent or lease income?

Mr. BOLGER. I think it is an improved situation today compared to what it was a few years ago. Like other agencies when we sign a contract, that contract is binding for that period of time regardless of what happens in the meantime. In 1980, I had a lot of complaints that a lot of our repairs were not being done by lessors because they were losing money on the lease arrangement. We had this long-term policy—I think it is a good policy and probably should be continued by the Postal Service—of having 10-year leases with 2-year options at the same price with some adjustment, usually lower as you got to the first or second options. They do not have tax escalator clauses for the cost of living. I went back and asked GAO if—because nobody before 1975 or the 1970's would have ever

imagined the double digit inflation we experienced—on a one-time basis, I could make some adjustment and the Comptroller General agreed with me that I could. We offered to adjust these contracts with certain considerations, including, giving us the option to purchase those buildings if it was going to be too expensive to deal with the inflation factor that the lessor was experiencing. So we went back and anybody that signed a long-term lease with us up to and including June 30, 1975, could come into us on this one-time basis and try to work out an adjustment so they would not continue to lose money on an indefinite basis.

We picked 1975 because anybody after 1975 should have seen what was happening in inflation and not entered into an agreement without escalator clauses.

Senator STEVENS. That was a one-time only basis. Is that right? It is not an announced policy of doing it every 5 years or anything like that?

Mr. BOLGER. No, sir. Anybody had their opportunity through June 30, 1981. I will supply the whole documentation for the record.

Senator STEVENS. For people that have the small leases, the leases of buildings in small communities, their complaint is they get tied into increased taxes, increased other expenses, and they are locked into a losing proposition. The building deteriorates and it is a self-defeating proposition to have a 10-year lease under those circumstances. Have you considered going to 5, 5, 5, and 5, with three options, rather than 10 years with two options?

Mr. BOLGER. We will negotiate that. That will be one option available to negotiate. We have accepted escalator clauses, particularly for taxes, maintenance of the building, and utilities. They are triggered once a year. I think we are in a fair position. While we were legally right, we were punishing some of those investors in buildings in the Postal Service. That is why we took that one-time action.

Senator STEVENS. Thank you very much.

[Information subsequently submitted by Mr. Bolger follows:]

LEASE AMENDMENT PROGRAM

The general rule for the Postal Service and other government agencies is that the provisions of a lease are binding for its full term. Consequently, it has been consistent postal policy not to make rental adjustments until a lease expires. However, due to the destructive inflation which was affecting the economy in the mid-to-late 1970's, the Postal Service did implement a temporary lease amendment program, from July 1980 through June 30, 1981, to provide its lessors with a measure of relief.

Under the program, which involved only long-term leases having an effective date prior to July 1, 1975, the Postal Service assumed the responsibility for maintenance and utility costs and taxes. In return, lessors would complete deferred maintenance, grant the Postal Service an option to purchase the property, and reduce the rent based on the average of the expenses assumed by the Postal Service over a 3-year period.

During the life of the program, 1,574 leases were amended, out of 3,173 applications. The Postal Service purchased 223 properties offered for sale by lessors.

Senator STEVENS. Senator Sasser?

Senator SASSER. Thank you, Mr. Chairman.

General, I have a study by the consulting firm of Clark, Phipps, Clark & Harris of New York, NY, which was employed by the Postal Service. This study was submitted to the Board of Governors

almost 5 months ago. It has not been made public yet. I have a copy and I want to quote two passages. This study says,

> The total pattern of evidence obtained by this study supports the charge that there is, with few exceptions, pervasive discrimination in the promotion of minorities and women in the U.S. Postal Service. This pattern of discrimination continues to exist in spite of commitments to the contrary on the part of the present Board of Governors.

Continuing on, General, the report says,

> The consensus among black postal inspectors is that the U.S. Postal Inspection Service is a tightly knit, elitist group which perceives itself as being immune to the equal employment opportunity complaints.

Now this flies in the face of a resolution passed by the Board of Governors for the Postal Service on August 4, 1981. In the preamble to that resolution it states, "The U.S. Postal Service has a natural role to play as a model in industrial democracy in the employment of women, minority, older, and handicapped workers."

Now, General Bolger, you must be concerned about this or you wouldn't have commissioned this study which confirms that there is a pattern, as the study says, of pervasive discrimination in the Postal Service. And my question to you, sir, is what are you going to do about it?

Mr. BOLGER. We have been doing something about equal opportunity in the Postal Service for many years. I suggest that report wasn't completely objective. They interviewed 30 black inspectors. We don't know who they are yet since they didn't furnish me the names. They went out and investigated and sat in on a hearing in California on one of these complaints. The Clark, Phipps study group agreed with the results of that hearing, in which the Postal Service's position was sustained and there were no grounds to prove the charge of discrimination.

On top of that, Senator, I want to suggest something to Clark, Phipps, and anybody else that is looking at the Postal Inspection Service. How far it has come in the last 12 years in equal opportunity is probably one of our shining lights. I would submit that 12 years ago you couldn't find 30 black inspectors in the entire Service and now it is over 100.

One thing I want to make abundantly clear is that the Inspection Service and all of the Postal Service's employees are totally committed to equal opportunity employment. I think our statistics prove it. We have a problem every once in a while when you look at the top management of the Inspection Service since there are not enough minorities at the top. But, we are taking an institution that didn't do the right things back many, many years and it is going to take some time. You need experience in the Postal Service. You cannot take junior inspectors and put them up in the top position. We didn't have any black inspectors in the Postal Service years ago. We have well over 100 now. They are moving up in the ranks. We have one that has a very senior position in our Philadelphia office—he is the Regional Chief Inspector. We have others that will move into these positions as vacancies occur. They have gotten this experience now and they are better qualified.

You wouldn't want to establish a quota system and put people in there because they are minority. You want them to be a qualified minority. I read that report thoroughly and I sat down with Dr.

Clark and his associates. Yes, we have problems in the Postal Service, like many, many other large organizations and other Government agencies. But I suggest we are moving in the right direction to correct those problems and give more equal opportunity in the total Postal Service, including the Inspection Service.

Senator SASSER. I suppose my concern, General, is that this report that the Postal Service commissioned itself takes generally a negative attitude about the discrimination within the Postal Service and indicates that there is in reference to, as I recall, a lack of the progress that you are alluding to in your statement here. It says that they continue to foster the maintenance of the status quo. This is what your own study shows.

Mr. BOLGER. This is totally inaccurate and we have the statistics to prove it. I don't care what that study shows.

Senator SASSER. You don't contest the statement by the Clark, Phipps study that it cost $50 million a year just to process the equal employment opportunity complaints?

Mr. BOLGER. I don't have ready in my mind just what it cost. But most of these complaints established there was no discrimination. We can't prevent people from filing complaints and we have to investigate them. Even though most of them come out after investigation with no discrimination. We have to have hearings. I would also suggest there are some frivolous complaints that were not reported by Clark, Phipps. We also have the situation where our union employees go through the grievance procedure under the contract and if they lose, they try the EEOC route even though the case established that there was no basis for a grievance at all.

Under the law they go both ways. They go simultaneously or one after the other. There is no way for us to prevent this under current law. There are costs involved and I assume that figure is fairly accurate.

Senator SASSER. General, I know you have a problem and I, for one, want to give you the benefit of the doubt, but I am troubled that the Equal Employment Opportunity Commission reports that fully 50 percent of the complaints that come to that Commission originate in the Postal Service, and it is hard for me to grasp the reason.

Mr. BOLGER. There are a couple of reasons. We have these dual filings in the grievance and EEO procedures where most people, unfortunately, are taking two bites of the apple. The other reason is that certainly most EEO complaints are going to come from the Postal Service since we are the largest civil Federal agency going. Certainly the statistics will show we have more than any other single agency, we have more employees. We have 680,000 employees.

Senator SASSER. Returning for a moment to the problem of the Postal Inspection Service, we have instances where, as I indicated a moment ago, the widow whose Social Security check is stolen will call the Postal Service to report the theft and they will refer her to the local police department. Now, stealing from a mailbox is a Federal crime, and I fail to see why we want to call that a Federal crime if the Postal Service inspectors aren't going to investigate it as a Federal crime and take some action as Federal officers.

Would you like to see some postal crimes removed from the Federal Criminal Code, General? Should the Congress just wipe out some of these present offenses that we call postal crimes, just take them out of the Federal Criminal Code, and if so, which ones?

Mr. BOLGER. Of course not.

Senator SASSER. Why aren't we investigating them?

Mr. BOLGER. We do. They may not be as promptly as some other things.

Senator SASSER. You just got through saying—and I hate to interrupt you in response to a question from my distinguished chairman—but you get into the more important areas. That is what you said. And you investigate the more important cases and you send your postal inspectors into the 14 largest cities. It is just as important to me when a constituent of mine, when a widow in Lenoir City, TN, has her Social Security check stolen and I suspect it is just as important to the chairman when this occurs in some small village in Alaska. Mine is not a State of large cities and neither is the chairman's, I know, and I am concerned that the Postal Service is simply putting its investigative and inspection resources into the largest cities, trying to catch the so-called big fish and leaving the run of the mill person who lives in a rural area or a small town to their own devices and as I say, these people are postal patrons, they are taxpayers and if a Federal crime is perpetrated at their mailbox, then there ought to be a Federal official there to investigate it or we ought to expunge it from the record and say if you steal it from a mailbox in Selmer, TN, population 2,500, that is not a Federal crime. If you steal from a mailbox in New York City, then that is a Federal crime and the postal inspectors will be out there after you.

Mr. BOLGER. I did not say they were not investigated. I said sometimes something more important is happening and you have to set a priority and something may take a back seat. It is just as important to me not just in postal crime, but in the Postal Service in general. I think I have established on the record that the Postal Service we have today will serve everybody in America, whether you are from the smallest town or hamlet or a major metropolitan area. That is our hallmark. We know that and we try to do that everyday. If there are some situations that I am not aware of where we are slipping in our responsibilities, if you bring the specifics to my attention, I will make sure we do something about it.

Senator SASSER. Thank you.

One final question, Mr. Chairman, if I may.

I indicated a moment ago, General Bolger, that in my native State of Tennessee the number of cases handled by the postal inspectors in the last 10 years has dropped by 50 percent. In 5 years, I think these are nationwide figures, the number of convictions of postal crimes have dropped by 75 percent. In August of last year a hearing officer for the Equal Employment Opportunity Commission in Washington said Chief Fletcher's Career Path Program was in violation of equal employment opportunity guidelines. Yet, in 1981 Chief Fletcher received a $5,000 salary bonus for outstanding performance. And I am mystified in view of the decline of productivity of his inspectors of the investigation of postal convictions, and the denunciation from the point of view of equal employment opportu-

nity of his Career Path Program by the EEOC, how that employment could be valued so highly in the Postal Service as to get a $5,000 salary bonus?

Mr. BOLGER. You are dealing with one set of statistics on Ken Fletcher and you are dealing in one person's opinion on how he conducted EEO. I look at the total point of view; that is, what Fletcher and other people do in the Postal Service everyday. I look at many, many statistics. I think Fletcher is an outstanding Chief Postal Inspector who deserved the $5,000. If I didn't have limitations I would probably pay him a lot more money.

Senator SASSER. On that note, Mr. Chairman, my time is up.

Senator STEVENS. I am interested, Mr. Bolger, about the statement you made about the number of cases that employees use grievance procedures and use the EEOC procedure. Would you furnish us for the record some statistics on the two bites of the apple cases as you put it and what percentage that is of each category of EEOC and union procedure that are duplicated?

Mr. BOLGER. Yes.

[The information referred to follows:]

DUAL GRIEVANCE/EEO FILINGS

[Fiscal years 1982, 1983, 1984 (through April)]

	Contract	Discipline	Total	Dual filed	Percent
Northeast	21,244	10,466	31,710	1,719	5.42
Eastern	9,819	4,044	13,863	3,892	28.42
Southern	25,502	7,581	33,083	11,690	35.33
Central	18,584	10,123	28,707	7,653	26.66
Western	15,050	7,441	22,491	3,417	15.19
Total	90,199	39,655	129,854	28,371	21.85

Senator STEVENS. I think this committee might be interested in putting on some limits. It seems to me you have the most highly unionized Federal agency in the Federal Government.

Mr. BOLGER. Yes, sir.

Senator STEVENS. And despite the negotiations going on right now, you have had very good relationships with the union organizations with which you work. I would think that we ought to have some concept that requires an employee to make the choice as to which procedure he or she takes.

Mr. BOLGER. We agree with that.

Senator STEVENS. Ultimately it is going to cost the people who buy postage stamps the cost of that duplication. If the $50 million figure is anywhere near correct, and I assume it is, and the Senator has been provided it by reliable sources, it would seem to me that is a figure we ought to take a look at. Also in view of the Senator's question we ought to have on the record the justification that you had for Mr. Fletcher's bonus, if you will provide that for the record.

Mr. BOLGER. Sure.

[The information referred to follows:]

Special Achievement Award—Kenneth H. Fletcher

Since June of 1972, Ken Fletcher has functioned as a member of Inspection Service top management, serving as Assistant Chief Inspector, Regional Chief Inspector, Deputy Chief Inspector, and now, Chief Postal Inspector. In these positions, he has been an important factor in and a major contributor to the progress and stability of the Postal Inspection Service and the Postal Service.

As Deputy Chief Inspector and Chief Inspector, Mr. Fletcher has focused his attention on improving the management process of the Postal Inspection Service. Under his direction and through his leadership, the mission of the Service and the role and the responsibility of each organizational level has been clearly defined and communicated. The policy formulation role of National Headquarters has been accented and oversight function reemphasized.

The major programs of the Inspection Service in the criminal, security, and audit areas have been redefined to more sharply focus resources on the priorities which contribute most significantly to the goals of the Postal Service and the needs of postal customers. This clarification has enabled each level of the organization, from Headquarters through the working inspector, to align individual endeavors with organizational goals. The result has been a higher degree of consistency in these audit and investigative programs.

By emphasizing the policy formulation role of National Headquarters and establishing clearly defined policy statements in each program area, field management now knows better what is expected of them, how their efforts contribute to organizational goals, and how their performance will be measured. This awareness has noticeably and productively impacted the direction the Inspection Service is taking today. Management and field inspectors alike now share an understanding of what needs to be done to accomplish overall objectives.

Inspector positions have been reallocated in the field to support better utilization of Inspector time on high priority work concentrated in the larger cities and to support a consistent level of service in each program area. A career path policy for Postal Inspectors has been established to promote optimum staffing of complex, big city assignments and to afford Inspectors broader work experience. The team approach to major investigations has been implemented resulting in more effective, responsive effort. Mr. Fletcher has also focused attention on the internal support organization of the Inspection Service with a view toward streamlining and modernizing its functions.

The impact of Mr. Fletcher's service as Deputy Chief Inspector and Chief Inspector is also visible in the results of Inspection Service major programs. In the area of external crimes, a major accomplishment during 1980 was the finalization of a nationwide service standard for external crimes investigations. Policies and priorities were set to ensure concentration on those cases which have the most significant impact on the Postal Service, its customers, and employees. For example, the focus of mail theft investigations is on major gangs and fences who deal in large volumes of stolen mail obtained primarily by theft from collection boxes, relay boxes, and vehicle break-ins. Several major operations were successfully investigated during 1980. Robberies and assaults were also high investigative priorities. All the postal-related homicides were solved and the overall robbery solution rate was 61 percent, the highest for any year since 1975. The national law enforcement city robbery solution rate is 25 percent. Under Mr. Fletcher's leadership, an external crimes prevention program was developed to compliment the criminal investigative effort. It sets into motion a new educational process to create shared responsibility for crime prevention among the public, postal employees, and the Inspection Service.

In the mail fraud area, a major new effort, the Consumer Protection Program, was developed and implemented to help educate mail users to be more alert to potentially fraudulent schemes. As a result of this effort, which received national publicity and very positive media coverage, substantially more fraud complaints are being referred to the Inspection Service, indicating that the program is having the desired effect on public awareness. This and the effective use of administrative powers under the False Representation Act (Title 39, U.S.C. 3005/3007) which, in effect, denies the operators of a fraudulent scheme the monies generated by a scheme, act as an effective deterrent and reduce public loss. Thirty percent more administrative complaints and seven percent more complaints seeking injunctive relief were filed in 1980 than in the previous year.

A program was also developed for the investigation of workers' compensation fraud and although not implemented until June of 1980, resulted in the arrest of 7 postal employees and the removal of 45 others from postal employment rolls. These employees had received $1.7 million in benefits in the past.

In audit, continued attention was focused on programs and facilities which account for the most significant commitments in postal resources. Installation audits were targeted on those facilities which handle the greatest volumes of mail and collect the largest revenues. Operational audits concerned those activities which have major impact on the Postal Service such as transportation and real estate. Significant opportunities for improved service and reduced costs in postal operations were identified and presented to Postal Service management. In summary, Mr. Fletcher has been a major contributor to the long-term success of the Postal Service and the Postal Inspection Service and has, as Chief Inspector, provided the kind of dynamic leadership and direction to continue that progress.

Senator STEVENS. Senator, that will finish my questions. We have a series of questions from members of the committee who have not come which we would like to submit for the record. I have some others that are details I would like to have answered for the record.

Does the Senator have any questions for the record?

Senator SASSER. Yes, I do, and I would like to submit them and request answers.

Mr. BOLGER. I would be delighted to answer any questions for the record.

Senator STEVENS. I want again to say, I hope it is not true that you are looking for other pastures, Mr. Bolger, but if you are, and we do not have the occasion to be together next year at this annual report, I wish you well. God knows Senator Sasser and I might have different seats next year. After all, it is an election year. But, I think we would still be the only two here, so it won't make much difference. I don't want to repeat what I said in the beginning, but I have had the unique vantage point of having spent a considerable number of years in the Federal executive branch myself. I have seen policymakers, I have seen people face tough policy decisions. I don't know of any member of the executive branch who has faced the myriad of problems during this difficult transition period as those you have faced in the Postal Service. You can claim the distinction of having substantially changed the Service and yet met the public need; complied with the directives of the Federal Government and ended up with such an enviable record. This is particularly true on the financial side, especially during this period of crisis that we have come through, with the inflationary cycle, then the recession. The period of time that you have been Postmaster General has been unique in our history and you have had increased producitivity, you have had surpluses in 3 out of the last 5 years. We hope that you will have another one now. It is a record that you can be proud of and we have been proud to have been able to work with you and hope that you don't retire, but we will leave that decision to other factors.

Senator SASSER. Mr. Chairman, if I could echo what you said. I have never served in the Federal service except in the military and here in the U.S. Senate. But I am the son of a career civil servant and in my association here with Postmaster General Bolger I have come to the conclusion that he is a dedicated public servant and we are fortunate to have him doing his job in heading the Postal Service. And I want to join you in commending him for the work he has done over the years in a critical and crucial time in the Postal Service history.

Mr. BOLGER. Thank you both. I appreciate those comments and I can tell you one thing. I won't be back for another session in this committee. I enjoyed my appearances before this committee. You have an interest in the Postal Service, you have shown that interest, and it is a pleasure to work with you.

Senator STEVENS. Thank you, and thank you, Mr. Hughes. We appreciate it very much.

[Whereupon, at 11:15 a.m., the committee was adjourned, to reconvene at the call of the Chair.]

APPENDIX

PREPARED STATEMENT AND RESPONSES TO WRITTEN QUESTIONS

STATEMENT OF POSTMASTER GENERAL WILLIAM F. BOLGER
BEFORE THE COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

April 25, 1984

Mr. Chairman, the Postal Service annually has this opportunity to present oversight testimony in compliance with a provision in the Postal Reorganization Act. In January of this year, we supplied the committee with copies of the Comprehensive Statement on Postal Operations, which the statute also requires us to submit. Today, I would like to highlight some of the information found in that report and to provide you with up-to-date information on developments which have occurred since the report was prepared. We are justifiably proud of this past fiscal year's financial record, of our service record, despite some slippage in the first quarter of the current fiscal year due to tremendous volumes, of our steady productivity gains, and of our technological advances. We recognize at the same time that we cannot rest on our laurels. We have much work to do to maintain and improve the performance of this public service operation. In addition, we are doing everything we can to make sure that all concerned with the future of the Postal Service understand the importance of the automation and ZIP + 4 program, collective bargaining, safety, and the employee involvement process.

These are among the key points which I would like to discuss with you today.

Financial Results

For the third time since enactment of the Postal Reorganization Act, the Postal Service ended the fiscal year in the black. The net operating income for FY 1983 was $616 million. The previous year it was $802 million. In 1979, the Postal Service posted a net surplus of $470 million, which means we have had surpluses in three of the last five years. Since 1977 the Postal Service has succeeded in virtually breaking even in its finances. This kind of performance makes possible longer periods of rate stability for our customers and encourages greater volumes of mail on which the financial health of the entire system depends.

The results in 1983 were attributable to many of the positive trends in the economy that were apparent in fiscal year 1982, such as the continued improvement in the rate of inflation which kept labor costs $210 million below plan, and the fuel and energy costs of $21 million less than the amount budgeted. In addition, we are recording higher volumes of mail and increasing our productivity. Mail volume exceeded 119 billion pieces. First-Class Mail volume increased 3.2 percent to 64.2 billion pieces, while third class jumped almost 11 percent to 40.7 billion pieces. The larger mail volume in relation to our workhours resulted in the Postal Service

realizing a gross productivity increase of 3.4 percent over 1982.

Not only did we process and deliver more mail more efficiently, we also improved our on-time performance. In all four quarters of FY 1983 our service performance equaled what we attained during the same periods in FY 1982 for overnight delivery of stamped First-Class Mail -- 95 percent in the first two quarters and 96 percent in the last two. Our performance for the fiscal year was 96 percent, which translates to a one point increase over last year. The figures for FY 1984 are not as impressive, as we had several weather related problems around the country in January and February. However, our service is now moving up to the 1983 levels of performance.

We are now witnessing a virtual explosion in mail volume, and it looks like we may hit the 128 billion mark this year -- up more than 7-1/2 billion pieces over 1983. First-Class Mail volume alone is up 8 percent so far this year -- and First-Class Mail, of course, is the very segment of our business that is most vulnerable to diversion to electronic alternatives which some consider the wave about to engulf the Postal Service.

Despite all the good news about mail volume, we are faced with the need for additional income in the near future. Our costs continue to rise, as is the case with any business. In recognition of this, the Board of Governors authorized postal

management last October to file a request for a recommended decision on a general rate increase with the Postal Rate Commission. This request, which came three and one-half years after the last request for rate adjustments, includes a three-cent increase in the price of a First-Class stamp -- an increase which is 10 percent less than the rise in prices in the marketplace since the last postal rate filing.

Although it was originally anticipated that new rates would not go into effect before October of this year, the Board stated on March 6 that it now expects that it will not have to implement a general rate increase before early 1985. In reaching this determination the Board pointed to the excellent financial performance of the Postal Service in recent months, and specifically the strong growth in volume and the revenue and cost data for the first four accounting periods of fiscal 1984 which indicate year-end results at least $300 to $400 million above earlier projections. Moreover, looking now at the first six accounting periods, we see year-end results approaching the break-even mark. What has made this possible is the Postal Service's ability to control its costs through such programs as mechanization, automation and attractive customer programs such as presort. These allow us to handle the unprecedented volumes of mail without proportionate increases in personnel. We have stretched out the interval between rate increases and intend to vigorously pursue further cost containment in order to increase that interval even more.

Collective Bargaining

The Postal Service negotiates 12 separate collective bargaining agreements covering more than 600,000 employees. The major agreements covering mail processing, mail delivery, data processing and support service employees are due to expire July 20 of this year, and negotiations with the unions representing these employees began yesterday. As you know, the Postal Service is a labor intensive organization, with salary and benefit costs during fiscal 1983 constituting 83 percent of postal expenses. Under these conditions it is clear that the compensation we pay our employees largely determines the prices we must charge to break even.

In a recent policy statement on wage negotiations, the Board of Governors declared, among other things, that wage negotiations with employee union representatives should not be fundamentally an adversary proceeding, but rather a joint venture designed to promote the present and future value of the Postal Service as a service with sufficient cost control to be competitive over the short and long term. I share those sentiments, and I believe that most postal employees do also. In these negotiations my aim is to achieve a contract that is fair to mailers, fair to our employees and fair to the American public. That means we must control costs, for by controlling costs the Postal Service has held the price of mailing well below the pace of inflation. Cost control is what has made

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mail service such a bargain. It is what has kept us competitive. It is why our volume increases and financial performance have been so healthy in recent years. If management and labor were to throw away those gains at the bargaining table, it would be a miscalculation of historic proportions. I, for one, have no intention of letting that happen.

Safety

Late in 1983, in recognition of the Postal Service's overall safety and health performance, we received the President's Occupational Safety and Health Award for 1982 in the large agency category. The major reasons for our improved safety record were increased safety awareness and training, and the successful activities of joint labor-management safety committees. As a direct result of these actions, total accidents declined by 19 percent in fiscal 1983, with similar reductions in the total number of occupational injuries and illnesses and total lost-workday injuries.

During 1983 more than 600,000 employees, or nearly the entire postal workforce, received training in the provisions of the Occupational Safety and Health Act, Executive Order 12196, and the Labor Department's regulations on employee rights and responsibilities under federal agency safety and health programs. This same training, and an employee safety handbook,

is given to each new employee during his or her initial safety orientation. As to safety and health committees, we have them at headquarters and in the field, with the field committees composed of both managers and union representatives. The union members of these field committees participate in facility inspections and accompany managers investigating serious accidents. This cooperation between all our employees has played an important part not only in our improved safety record but also in the general success of the Postal Service in accomplishing its mission so well.

Automation

Now, in regard to the Postal Service's future success, I consider one program to be of overriding importance, and that is automation, ZIP + 4 and proper addressing. This program is without doubt one of the Postal Service's most important programs. It will provide the Postal Service with increased productivity and reduced postal costs. For our customers it will improve service by making deliveries more consistent and reliable. Over the long haul it will give greater stability to postage rates.

As you know, we experienced a slow start with ZIP + 4, beginning with the delayed implementation date of October 1, 1983 required by the Omnibus Budget Reconciliation Act of 1981. Shortly after that date passed, the Board of Governors established two categories of reduced rates effective

October 9, 1983 for those who voluntarily use the ZIP + 4 Code. A one-half cent rate incentive was made available to those using ZIP + 4 on First-Class presorted mail in quantities of not less than 500 pieces. Nonpresorted First-Class Mail, bearing the ZIP + 4 and mailed in quantities of 250 or more pieces, was made eligible for a nine-tenths of one cent per piece discount. To qualify, the mail must meet a few other machinability and optical character readability criteria.

Mailers, however, began to have difficulty matching 100% of their address records with the ZIP + 4 codes. This occurred because address files do not always contain complete and proper records, which makes the matching process more difficult. As a consequence, a number of mailers were actually being faced with higher postage costs if they tried to use ZIP + 4. Since we were initially requiring the separation of ZIP + 4 coded pieces from non ZIP + 4 coded pieces, mailers stood to lose their minimum presortation densities on their presorted First-Class Mail, and therefore not as much of their mail would qualify for the presort discounts. Giving up three cents to gain half a cent doesn't make good business sense by any economic theory.

To solve this problem we changed our regulations effective February 1, 1984, giving our customers a 20-month interim transition period during which they can combine 5-digit coded presorted mail with presorted ZIP + 4 mail. They can reap the discount savings from both programs while they continue to

improve the quality of their address files, and therefore their ZIP + 4 match rates.

The mailing industry's response to this new "commingling" regulation has been extremely enthusiastic, and as a direct result we have seen companies like PEPCO and Pittsburgh National Bank begin using ZIP + 4 codes. Additionally, companies like U.S. Steel, Merrill Lynch, and Shell are among the numerous other companies in the process of adding the codes to their files. There are some 50 private companies offering some type of ZIP + 4 address matching service who have told us they are braced for a flood of new ZIP + 4 customers. The bigger ones who have supported ZIP + 4 all along are now signing several contracts for matching software each week.

To be ready for these new customers, the Postal Service has made a massive commitment of resources to postal automation, representing one of the largest capital outlays in the history of the U.S. Post Office -- some $800 million. While it is true that initially we can get an attractive return strictly by processing 5-digit ZIP mail on this new equipment, the biggest savings come when the mail bears ZIP + 4 codes.

We project that by the late 1980s, if we can reach the point where 90 percent of machinable First-Class letters bears the ZIP + 4, we can save more than $900 million a year in labor costs alone. That is an extraordinary opportunity, and we intend to make the most of it.

Employee Involvement Process

The Postal Service made progress in 1983 in its Employee Involvement/Quality of Working Life process. Three of our four major unions have been working with us to develop a process that will enable employees to help solve problems at the worksite. Our goals for the process are to improve labor/management relations and the quality of life of our employees at work.

At present the process is being implemented by the letter carrier, rural carrier, and mailhandler unions and the Postal Service at more than 30 sites. We are also involving managerial and other non-bargaining employees through the formation of employee involvement management committees at the headquarters and regional levels. We recognize that this process is one that is geared to the long haul, and tangible results may not be visible for sometime. We are prepared to pursue it for the benefits we believe it will accord to our employees, our institution overall, and the American public.

This concludes my prepared statement. I will be pleased to try to respond to any questions you may have.

QUESTIONS FROM SENATOR STEVENS

QUESTION: I have received numerous letters from hardware retailers and manufacturers concerning centralized mail delivery. As I understand it, this delivery system envisions the use of clusterboxes, and that to carry out this policy the Postal Service is purchasing and installing these boxes for the consumer. Please explain to me in some detail why you are moving toward centralized mail or clusterbox delivery. Why is the Postal Service purchasing mailboxes traditionally provided by the consumer?

ANSWER: Postal delivery service is growing at a rate of approximately 1 1/2 million new deliveries per year and now accounts for 39% of postal workhours, the largest segment of the postal workload. However, delivery service is one aspect of the Postal Service's function which does not lend itself to mechanization. Thus, the Postal Service must work to control cost growth in this major segment of its business or the public will pay the price in larger postage rate increases.

Centralized delivery is one very effective way to control costs in new delivery areas. Each delivery to a centralized receptacle saves $30 over delivery to the curb and $52 over delivery to the door annually. The major advantages of centralized delivery are greater delivery productivity contributing to rate stability, greater fuel economy

for postal vehicles, greater mail security with locked mail receptacles, regular collection of outgoing mail, and a potential reduction in safety hazards for carriers.

The Postal Service has developed a procurement program for neighborhood delivery and collection box units (NDCBUs) which is calculated to ensure the availability of a sufficient supply of these mail receptacles at a reasonable price, to see to it that no manufacturer is left out of the procurement process, and as an inducement to homeowners, builders, and developers to choose the more efficient and economical centralized form of delivery. Since this program has been in effect, the number of manufacturers of neighborhood delivery and collection box units (all but one of which are small businesses) has doubled, the price per unit has fallen noticeably, and the market has become quite competitive. I should point out that out of deference to the Small Business Administration and its constituency and in contravention of good procurement practice, the Postal Service limits solicitations for NDCBUs to lots of 100 units or less. The very few instances where this practice has been violated have been quickly corrected.

QUESTION: There have been suggestions that INTELPOST is costing the Postal Service significant sums of money with miniscule returns. What is the status of the INTELPOST program? Are you making money? If not, when do you expect to show a profit?

ANSWER: INTELPOST is, at present, a research and development project to look into the feasibility of using modern telecommunications technology in the rapid exchange of mail. International mail was selected as an appropriate test medium because of the relative ease in implementing the new system, the distances involved, and the smaller volumes of mail involved. Since its inception no participating country has generated sufficient revenue to justify the continued use of the complex high-speed scanners and printers and the computers with their dedicated circuits. Consequently, the Postal Service and several other project participants tested the use of dial-up facsimile equipment as an alternative to the current store-and-forward configuration. The test was successful, leading the participating countries to agree to replace current equipment with more economical facsimile transceivers operating on the public switched telephone network. This action, which will be completed by October 1, 1984 will eliminate substantial personnel and computer and transmission overhead costs which did not vary with volume. In this new configuration, at current rates,

the INTELPOST system would break even at a volume of between 2,000 and 3,000 pages per month.

INTELPOST volumes are slowly increasing. Originated and received page volumes for Fiscal Year 1983 were 5,830 and 10,058 pages, respectively. Through April 13 of this year, the Fiscal Year 1984 volumes are 4,909 pages originated and 9,266 pages received. From April 16, 1983, to April 13, 1984, there have been 9,215 originated and 16,602 received pages. At present, nine countries participate in the INTELPOST project with two more scheduled to join within the next two months.

QUESTION: We have received a number of complaints from third class business mailers about non-delivery or excessively late delivery of their mailings. One example that comes to mind concerns the Chicago Post Office. Specifically, what is the Postal Service doing to insure that the mailings of large business bulk mailers are delivered in a reasonable and timely fashion?

ANSWER: To put it succinctly, extremely high mail volumes pose special mail processing and delivery problems in major cities such as New York and Chicago. In several large cities, increased staffing has been resorted to, as well as the further mechanization of both letter and flat mail sorting operations. The onset of automated mail processing will also help to further address this situation. To identify trouble

spots and increase efficiencies, the Postal Service has effectively used the Model Unit Program in metropolitan areas. This program involves facility audits to ensure that operations are in conformity with standard operating procedures and equipment configuration plans which have proven successful.

The Postal Service is well aware that it must continue to provide first-rate service to its customers if it wishes to remain a respected competitor in the communications business. Postal managers are continually examining and reexamining mail processing, retail, and delivery operations with an eye to improved efficiencies and cost savings. Management's commitment to excellence will not countenance an unacceptable level of service to any postal customer.

The Postal Service is well aware of the importance of Bulk Business Mail. It is the fastest growing single segment of the mail stream and a significant contributor to productivity increases and to holding down postage rates for all classes of mail, since it spreads the fixed costs of the postal system over a greater base. Management forecasts indicate that third-class advertising mail will continue to grow because people like the convenience of shopping by mail.

Following up on some industry studies which alleged that a percentage of properly-addressed third-class mail was not being delivered, the Postal Service and the direct mail industry undertook a joint study of bulk mailing procedures. As a result, mailers will pay more attention to their addressing and mail preparation activities. For its part, the Postal Service will work to foster a more positive image of bulk business mail, devote more effort to quality control at bulk mail acceptance units, and alter its transportation and distribution networks to make certain that this mail receives the attention it deserves. This year, a diagnostic service analysis test will be conducted on thirty-six separate third-class mailings to determine service performance and the incidence of non-receipt.

QUESTION: The Postal Rate Commission recently recommended a doubling and tripling of your rates for E-COM. What would be the consequences of implementing the rate as suggested by the Rate Commission?

ANSWER: At its May, 1984 Board meeting, the Governors of the Postal Service rejected the recommended decision of the Postal Rate Commission to increase the basic E-COM service first-page rate from 26 cents to 52 cents, and the Postal Service resubmitted the case to the Rate Commission. On June 1, the Commission returned a further decision recommending a first-page

rate of 49 cents. At the June 5 Board of Governors meeting, the Governors, by a majority vote, rejected the 49-cent rate, and the Board announced that the Postal Service should immediately prepare to seek proposals from parties interested in buying or leasing the E-COM service equipment owned by the Postal Service, and in reimbursing the Postal Service for costs associated with operating the E-COM service system. The Board also authorized the Postal Service to file within the next 30 days a request with the Rate Commission to remove E-COM service as a subclass of mail from the Domestic Mail Classification Schedule. This action by the Board evidences a redirection of postal resources toward the area of our greatest strength -- our universal hard copy delivery system. When the changeover in E-COM service is completed in 1985, the Postal Service will be in a position to offer our delivery and related services to anyone who desires to market electronic mail with hard copy output. One of the principal benefits of this action by the Board will be the inducement given to private sector firms having greater flexibility to enhance and market electronic mail services to develop products utilizing our universal delivery service.

QUESTION: Post Offices throughout the nation provide much more than mail service. They often are the only federal

building in a community and offer a place where you can obtain passports, food stamps, and other things often way outside the parameters of the purpose of the Postal Service. I understand that the Secretary of Agriculture, John Block, has suggested that post offices could be helpful to the USDA in disseminating information regarding flood hazards by displaying pertinent information. In some areas this would make a lot of sense.

Does the Postal Service have a position on Secretary Block's suggestion? What is the general attitude of the Postal Service about providing other than Postal Service functions to the public? To what extent are you reimbursed for such functions as passport services, draft registration, dispersing food stamps, etc.?

ANSWER: The Postal Service is always anxious to assist other agencies of government with program activities provided that these agencies reimburse the Postal Service for its costs. Whatever activities are undertaken must not interfere with the conduct of postal business. On a reimbursable basis, the Postal Service distributes food coupons for the Department of Agriculture, accepts passport applications for the Department of State, handles Selective Service registrations, conducts housing vacancy surveys for the Department of Housing and Urban Development, and sells Migratory Waterfowl stamps for the Department of the Interior. The Postal Service also cooperates extensively with the Bureau of the Census in preparing for and conducting the decennial census. At present, the Postal Service is furnishing the Census Bureau with four mailing lists, which the

Bureau will compare with information from other sources to determine whether these lists are more comprehensive and accurate than existing census lists. This action was endorsed by Public Law 98-166 which followed up on a suggestion in a General Accounting Office report.

While the Postal Service has no recollection of any contact by Department of Agriculture officials concerning the posting of flood warning or other notices, it has no objection to discussing such a program.

Fiscal Year 1983

Food Coupon Distribution	$ 15,305,354
Passport Applications	7,247,594
Selective Service Registrations	1,000,723
Housing Surveys	391,011
Migratory Waterfowl Stamps	383,518*

* July 1982 to March 1983

QUESTIONS FROM SENATOR COHEN

QUESTION: I understand that the mailings of nonprofit organizations are subsidized by a federal appropriation for revenue forgone which keeps postal rates for non-profit mailers low. With increased pressure upon private sector charities as federal social programs are curtailed, does the Postal Service have an interest in helping to keep non-profit rates low?

How are those rates affected by rate increases in third-class bulk business mail?

ANSWER: Certainly the Postal Service understands the humanitarian need for assisting nonprofit organizations and recognizes that low, subsidized postage is one method of providing that assistance. However, the Postal Service takes no position on the existence or size of the subsidy appropriated by the Congress for preferred rate mailers. The role of the Postal Service is to control costs and increase productivity so that basic rate levels are maintained at the lowest possible levels.

Rate levels for third-class nonprofit mail are not affected by rate levels for third-class regular bulk mail, but a rate increase for third-class regular bulk mail would increase the subsidy required to provide reduced rates for third-class nonprofit mail.

QUESTION: I understand the mailings of most charitable organizations consist of relatively lightweight pieces -- usually less than two ounces. Without any federal subsidy, what would it cost a non-profit organization to mail a lightweight letter such as a solicitation for charitable donations?

What would it cost a non-profit organization to mail a three-ounce letter without any revenue forgone subsidy?

A four-ounce piece?

ANSWER: To mail a two- or three-ounce piece without a federal subsidy a nonprofit organization would pay 7.4 cents, if the piece was presorted to a carrier route; 9.3 cents, if the piece was presorted to 5-digits; and 11.0 cents for all other pieces. The rates for a four-ounce piece would be 7.65 cents, 9.55 cents and 11.25 cents respectively.

QUESTION: Can you explain why the mailer of two ounces of mail pays the same price as the mailer of four ounces? Doesn't this force mailers of lighter pieces of mailto bear more than a fair share of postal costs while mailers of heavier pieces bear less?

ANSWER: The rates for four-ounce pieces are about the same as for two-ounce pieces because the costs to handle these pieces are similar. Another important consideration is that the rate simplicity inherent in a flat rate is important for the many unsophisticated small mailers of third-class bulk.

Cost-based rates of this kind are consistent with the concept of "fair share."

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QUESTIONS FROM SENATOR DURENBERGER

QUESTION: How much would it cost to mail an advertisement on this postcard at third-class rates, carrier route presorted?

ANSWER: 7.4 cents.

QUESTION: How much would it cost to mail four ounces of flats at third-class rates, carrier route presorted?

ANSWER: 7.65 cents.

QUESTION: How much would the package with the card used as a detached label cost at third-class rates, carrier route presorted?

ANSWER: 7.65 cents.

QUESTION: How can you explain the appearance that the postcard traveling alone is paying an unfairly high rate while the card as a label is mailed for free?

ANSWER: Postal Service costs to handle pieces weighing less than 4 ounces do not increase with the weight of the piece. Using a detached label with a third-class mailing of flats reduces the costs associated with processing these mailings. This cost reduction is the result of lower casing costs for cards than for flats. Please note that this cost difference is the

result of the shape of the mail piece, not the weight of the piece. The rate structure does not make a rate distinction based on mail shape.

QUESTION: In response to controversy over the detached labels, does the Postal Service still believe addressed mail is a necessity? Why?

ANSWER: Yes. The Postal Service exists to deliver mail to specific addressees. It is the purpose of the Postal Service to deliver addressed mail.

QUESTION: Is it considering abandoning the addressing requirement for saturation mail?

ANSWER: No. The Postal Service believes it is important to maintain the requirement that all mail be addressed and that it should not be used to saturate addresses with unaddressed flyers. The Postal Service is not considering eliminating addressing requirements for saturation mail.

QUESTION: Postal regulations permit a packet of flat circulars to be mailed without attached addresses if the packet is accompanied by a postcard containing the postal patron's address. The packet and the postcard travel through the mails as two separate pieces, and the postcard often carries a written message of its own. If the postcard were mailed alone, with its message on the back, what would its cost be? If a four ounce packet of advertising circulars was mailed with attached addresses, what would the cost be? If the two are mailed together, postal regulations permit one piece-charge to be assessed to the entire packet, postcard included. How can you explain the appearance that two pieces are traveling for the price of one?

ANSWER: The postcard mailed alone would pay 7.4 cents as a carrier-route presorted piece. A four-ounce packet of advertising circulars with an attached address would require postage of 7.65 cents. A four-ounce mailing with detached labels would also pay postage of 7.65 cents. Detached labels with a mailing of flat pieces reduce overall mail processing costs because only the label is cased.

QUESTION: I understand that the Postal Service has been asked to permit saturation mail to travel without addresses. Does the Postal Service contemplate accepting that proposal. Why or why not?

ANSWER: The Postal Service is not contemplating accepting that proposal since the Postal Service believes its proper role is to deliver mail to specified addresses. The delivery of pieces to every delivery point without address specifications is not viewed as a Postal Service delivery function.

QUESTION: When a First-Class mailer puts a stamp on an envelope, the stamp carries the value of the postage on its face, but often, in bulk business mail, the consumer is unable to tell how much the mailer paid in postage. Why does the Postal Service permit third-class mail to travel without the amount of postage printed on its face? How can the consumer tell if the postage is being paid?

ANSWER: The Postal Service does not require mail to show the postage paid on each mail piece because to do so would increase the expense of using the mails and would not increase Postal Service control over postage payment. Third-class mail is not the only mail to use postage payment methods that eliminate the need for indication of postage amounts on the mail pieces. Much First-Class Mail postage is paid by methods other than postage stamps and often First-Class Mail simply has an indicia indicating that postage and fees have been paid without any reference to the amount of postage. No postage amounts are shown on pieces of second-class mail and a substantial amount of fourth-class mail does not contain any indication of the amount of postage.

A customer can be assured that postage has been paid on any mail piece he receives. The Postal Service does not permit mail into the mailstream without payment of postage.

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United States Senate

COMMITTEE ON
GOVERNMENTAL AFFAIRS
WASHINGTON, D.C. 20510

August [illegible] 1984 [illegible] '84

Mr. William Bolger
Postmaster General
U.S. Postal Service
Washington, D.C. 20260

Dear Mr. Bolger:

I have recently received your responses to the questions which I submitted for the record for the April 25 Postal Service oversight hearing. I find that these responses are inadequate in addressing the issue of detached labels and the Postal Service's associated pricing policies.

The answers provided to the questions submitted did not dispel the appearance that a detached label for a packet of flat circulars is travelling through the postal system for free. While the labels for the circulars, which themselves usually contain advertising, are detached from the circular packages, the two different pieces of mail are only charged 7.4¢ postage -- the cost for delivery of one single piece of third class mail. This pricing prevails even though the detached labels and circular packages are often delivered on different days. The net effect of this policy appears to be the underpricing of the third class mails, regardless of how it is justified.

The price of delivering third class mail -- which must compete with private sector delivery systems such as the newspapers -- has only risen from 4¢ to 7.4¢ since 1970. During this same time period, the price of first class mail -- over which the Postal Service holds a monopoly -- has risen from 4¢ to 20¢. One might conclude that the Postal Service is engaging in predatory pricing practices and is using the first class mail to subsidize third class mail. Any such cross-subsidy is clearly contrary to the Postal Reorganization Act of 1970. The lack of explanation provided for these policies would indicate that the Postal Service does not consider this matter a serious issue.

With regard to the information that was provided, the answers to several different questions contained internal contradictions. It was stated that the purpose of the Postal Service is to deliver addressed mail and that the Postal Service

is not considering the abandonment of this policy. On the other hand, you indicate that, indeed, the Postal Service does deliver unaddressed mail, since third class flats with detached labels are not cased. No explanation for this inconsistency was provided.

As a member of the Senate Governmental Affairs Committee exercising oversight of the Postal Service, I found the responses to my questions disappointing. From the responses received, it would appear that the Postal Service is unconcerned with the requirements of the Postal Reorganization Act of 1970 and does not consider this a grave matter.

Sincerely,

Dave Durenberger
United States Senator

DD:phn

CC: Senator William Roth
Senator Ted Stevens
Otto A. Silha

THE POSTMASTER GENERAL
Washington, DC 20260-0010

September 24, 1984

Honorable David F. Durenberger
United States Senate
Washington, D.C. 20510

Dear Dave:

This is in response to your letter of August 10, concerning detached labels and third-class mail rates.

All questions relating to postal rates and to mailing requirements are matters of serious concern to the Postal Service. This is true whether or not the question is one of those examined in hearings before the Postal Rate Commission. We seek rates which are fair and equitable and which do not involve any measure of cross subsidization. When separate treatment is accorded different subclasses as is required by the Postal Reorganization Act, the reasons for the resulting rates are made quite clear and comments of concerned parties are always considered.

When applicable regulations are met, detached labels are permitted for both second-class and third-class mail. There is no difference in the way the classes are treated. In both practice and theory, the label should not be viewed as a separate piece which travels on its own. The label is an integral part of the associated mailing piece; they are submitted together, they travel together, and they are required to be delivered together. The reason for allowing the label to be detached is that the cost of processing for delivery in detached form is less than the cost of processing for delivery the alternative addressed piece. The detached arrangement is thus a benefit to mailers as well as to the Postal Service.

A great deal of attention has been given to the facts that a separate rate exists for post cards and that advertising is allowed on the detached label. The post card comparison is not reasonable. If a post card is not mailed, postal costs decrease significantly; if a label is not detached, postal costs increase. As indicated above, the detached label should not be viewed as a separate piece.

Given its existence, however, the Postal Service does not think it proper to bar advertisements from it, since the advertisement is a benefit to the mailer and imposes no additional burden on the Postal Service. Also, since the third-class flat and its label are one mail piece, the flat cannot be viewed as an unaddressed mail piece.

The rate-setting process focuses primarily on the costs of the mail involved and on the rate-setting factors specified in the Postal Reorganization Act. Since 1970, the costs of third-class mail have declined relative to First-Class Mail, due largely to extensive preparation by the mailers. Although importance is not placed on long-term trends in the resulting rates, comparisons such as the one you made are possible, but must be done carefully. Specifically, you indicated that since 1970, third-class rates had gone from 4¢ to 7.4¢ while First-Class rates had gone from 4¢ to 20¢. Two corrections are needed. First, the First-Class rate in 1970 was 6¢, not 4¢. Second, since you used the carrier route rate for third-class, the corresponding current First-Class rate of 16¢ should be used. This changes the comparison considerably.

As you know, the Postal Service filed a request for a general rate increase with the Rate Commission last November. That request proposed a rate increase for third-class mail of 21.9 percent. This is greater than the increase proposed for any other category of regular rate mail. Following extensive discussion of this proposal and alternative costing and cost attribution methods proposed by other participants in the proceedings over the last ten months, the Commission recommended only a 14 percent average increase for third-class mail. The Governors of the Postal Service will first consider the Commission's recommended decision at their October meeting. As you know, the Governors may accept, allow under protest, or reject the decision at this point in time.

When these matters are viewed properly, I believe you will find that the detached label arrangement benefits all concerned and that third-class rates are fully in accord with the requirements of the Postal Reorganization Act. I trust this additional explanation is helpful.

Sincerely,

William F. Bolger

QUESTIONS FROM SENATOR RUDMAN

QUESTION: How does the efficiency of the Postal Service with regard to third-class bulk mail handling compare with that of five years ago?

ANSWER: When compared to five years ago, the efficiency of handling third-class mail has improved significantly. The Postal Service has improved its transportation, processing, and delivery of bulk business mail (third-class mail). Several large bulk mailers have periodically conducted service tests. In one particular instance, the average number of days to deliver declined from 12.7 days in 1981 to 10.9 days in 1983. These service data which the mailers furnished the Postal Service substantiates the Postal Service's position that service has improved measurably. It should also be noted that during this period, third-class bulk business mail volume has increased substantially. In five of the last six fiscal years, this volume increased 9% or more per year. This is a cumulative growth of 69.4% during the six year period.

In addition to increasing management and employee awareness of the importance of bulk business mail, the Postal Service has instituted changes in its transportation network to reduce in-transit time.

Also, effective January 1, 1985, all second-class mail will be handled in the preferential surface transportation network. Bulk Mail Centers will then handle third- and fourth-class mail only.

QUESTION: Can the Postal Service provide certainty of delivery date to a third-class mailer?

ANSWER: While every reasonable effort is made to meet a bulk business mailer's specified delivery date or a range of delivery days, the Postal Service is not able to specifically guarantee delivery of bulk business mail on a given date. Larger mailers, who are aware of how the Postal Service's processing and transportation systems operate and who work closely with local postal managers to enter their mail sufficiently ahead of their targeted delivery date, generally receive a higher percentage of "on time" delivery.

Postal policy is that at city delivery offices, mail received up to midnight must be distributed in time for delivery no later than the second delivery day after receipt at the destinating central distribution facility. For example, mail received at the main mail processing facility of the post office of address at 5:00 a.m., on Monday must be distributed so that delivery will be made no later than Wednesday.

QUESTION: What variables are considered in the establishment of third-class rates?

ANSWER: After a determination of the overall level of revenue required for the Postal Service to break even, the appropriate rate level for each class and subclass of mail is determined. To determine these rate levels, each of the factors in 39 U.S.C. Section 3622(b) is completely reviewed for each class of mail with primary reference to the relationship between revenue and cost. Those factors are:

- the establishment and maintenance of a fair and equitable schedule;
- the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery;
- the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or type plus that portion of all other costs of the Postal Service reasonably assignable to such class or type;
- the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;
- the available alternative means of sending and receiving letters and other mail matter at reasonable costs;
- the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;

- simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;

- the educational, cultural, scientific, and informational value to the recipient of mail matter;

After a determination of the overall rate level for each class and subclass, the specific rate design is determined. Some considerations of importance to third-class regular rates in the current rate proposal of the Postal Service are:

- The proposed markup over cost is 54 percent compared to an average markup of 68 percent.

- The rate increase for third-class regular bulk is 21.9 percent compared to the average rate increase of 15.4 percent.

- Minimum per-piece rates are used by about 85 percent of all third-class regular bulk pieces.

- Cost studies show that the cost per piece for this mail is relatively constant out to about four ounces.

- Third-class regular bulk mail that is presorted to five digits reduces Postal Service per-piece costs by about three cents and mail presorted to a carrier route reduces costs by about five cents.

- In addition to large, high volume mailers, third-class rates are used by a large number of unsophisticated mailers. These mailers are best served by a simple rate structure.

QUESTION: Do you feel under present circumstances, with the third-class mail delivery program as successful as it is, that the rate accurately reflects the value of the service, or should the Postal Service receive more for the service it provides?

ANSWER: The Postal Service believes that it should receive more from third-class regular bulk mail. The Service has proposed that the rates for this mail be increased by 21.9 percent -- a rate increase well above both the proposed rate increase of 15.9 percent for First-Class Mail and the 15.4 average rate increase for all mail.

QUESTIONS FROM SENATOR SASSER

QUESTION: General Bolger, on March 19 of this year, in a letter to you I requested the cost to the Postal Service to relocate investigative postal inspectors for each of the last ten years. In a letter dated April 23, 1984, I was advised that this information was unavailable for Fiscal Year 1974 through Fiscal Year 1978. General Bolger, why do you think this information was withheld by the Inspection Service?

ANSWER: No information was withheld from that initial response on relocation expenses. The cost of postal inspector relocations for the years 1974 through 1978 cannot be separated from the total travel expenses for these years because financial records for this period are limited to historical-type summaries. The information requested was provided for the years 1979 through 1983 because the Inspection Service has maintained these records for economic analysis, even though Postal Service regulations specify only a 3-year retention period for records relating to relocation costs.

QUESTION: General Bolger, I would like for you to provide me with copies of all official documents relating to the establishment of a nationwide Contract Fraud Task Force in 1982, together with names of all Task Force members. I also request copies of all correspondence and investigative reports between this task force and the Postal Inspection Service management. Please also provide any correspondence between this task force and the U.S. Department of Justice and/or U.S. Attorneys. Please provide the date the task force was terminated, the reason therefor, and any final report of the finding and conclusion for this task force.

ANSWER: The Inspection Service has had no nationwide contract fraud task forces for several years. If further details can be furnished, perhaps the Inspection Service can identify which task force is of interest.

QUESTION: General Bolger, postal employees in Tulsa, Oklahoma, since 1982 have stolen over 100,000 pieces of mail containing $250,000 in cash and an estimated $9 million in checks. The U.S. Attorney for the Northern District of Oklahoma, through the Justice Department, in response to the Career Path policy of the Inspection Service has advised me, and I quote, "The policy is a disaster. A major mail fraud case was missed in the District. Secret Service has had to investigate thefts of checks from Postal Service vehicles and postal patrons". General Bolger, how do you explain this total breakdown in crime prevention programs of the Postal Service?

ANSWER: There is no breakdown in the crime prevention programs of the Postal Service. The Inspection Service considers crime prevention to be a very important element in its enforcement efforts and is actively engaged in prevention programs designed to protect consumers from becoming victims of postal-related crimes--primarily, mail theft and mail fraud. Every Postal Inspector is responsible for supporting the crime prevention program which has as its obvious goals a reduction in crime against postal employees, property, and customers and the continued integrity of the mails. The ideal approach to law enforcement is to prevent individuals from being victimized in the first place. A substantial

reduction in crime can be accomplished through a combination of public awareness and a lessening of opportunity for the criminal. In an effort to heighten public awareness, Postal Inspectors throughout the country have been trained to educate the public on crime prevention measures and activities. The amount of postal-related crime has decreased nationally. Robberies have decreased 4%; burglaries 6%; assaults 8%; and mail theft incidents by 14% during the past year. The mail theft problem, particularly the theft of checks, is most severe in the low income areas of the larger cities where millions of welfare and social security checks are distributed by mail on fixed schedules that are known to criminals. Efforts to prevent internally-related crimes concentrate on working with major mailers, postal managers, and postal employee groups to review and tighten internal controls. Postal Inspectors have recommended changes in the preparation, handling, and processing of mail to provide increased security and reduce the incidence of crime against postal employees, property, and customers.

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QUESTION: How do you explain the fact that the U.S. Attorneys have to ask the Secret Service to investigate theft from postal vehicles?

ANSWER: U.S. Attorneys have not had to ask the Secret Service to investigate thefts from postal vehicles. The Secret Service is required to investigate the forging and cashing of United States Treasury checks, some of which could have been included in mail taken from postal vehicles. The Postal Inspection Service does have a close working relationship with the Secret Service on offenses where both agencies have jurisdiction.

In the past four years, there have been seven vehicle attacks in the Tulsa area. All received investigative attention by the Inspection Service. The Postal Service's Southern Region has realized a 43% reduction in vehicle attacks in comparison to the same period last year (68 attacks FYTD vs. 120 SPLY). The Inspection Service is confident that this favorable trend stems from its policy of prevention coupled with aggressive investigation of those criminal attacks which have the greatest impact on postal customers and the Postal Service.

QUESTION: How long do you plan to wait before you take positive steps to correct the negative effect of the Career Path Program on prevention of postal crimes and the enforcement of federal postal statutes?

ANSWER: The Career Path Policy has not negatively affected crime prevention and enforcement programs. It is a positive approach to meet the established objectives of both of these programs. One of the major purposes of this policy was to increase the experience level of our investigative force in the major metropolitan areas where the bulk of our major crimes occur. We have just now, after four years, reached the point where the experience level in those major metropolitan areas equals that in the non-major metropolitan areas.

The overall accomplishments of the Inspection Service during the past year clearly reflect the success of the Career Path Policy.

QUESTION: I have a large number of postal complaints from those working in or served by the Knoxville Sectional Center. Within recent months, the Knoxville Sectional Manager has commenced the phasing out or the moving of three outlying stations -- Halls, Burlington, and Midway. In each of these three cases, the citizens affected have mounted protracted and extensive petitioning efforts to retain service as they have known it in the past, and I have written the Postal Service in full support. None of the three efforts has as yet succeeded. In the case of Halls, a feasibility study was finally scheduled for January, 1984, in my opinion because the Greater Knoxville Chamber of Commerce entered the discussion on behalf of the Halls petitioners, even though the

circumstances are equally appealing in all three cases.

Since the Postal Service is an agency for the service of the citizens of the United States, in my view the economies of which it can boast must not be at the expense of service to patrons.

Would you comment, please?

ANSWER: I quite agree with the sentiment that the Postal Service is first and foremost a service agency. However, this does not mean that from time to time it will not seek to provide the same level of service to its patrons by more efficient and cost-effective means. Changing business and demographic patterns will obviously require some adjustments in the postal delivery network and postal managers must be sensitive to these changes in order to best serve all postal customers.

Postal managers are actively determining whether the three facilities cited in your question meet the service needs of the communities they serve. In the cases of Halls and Midway, the Knoxville Sectional Center is evaluating a facility planning study and reviewing the responses to a customer questionnaire, respectively. Design work is proceeding on the Burlington facility.

QUESTION: A constituent has reported to me that the Postal Service for more than four years has been operating an Address Information System Support Center, known as Data Site, in Memphis. During that period, there have been a number of temporary employees, paid approximately one-half the pay of regular, permanent employees doing similar work, who do not have any of the benefits or protections of regular appointment. I am told that a number of such temporary employees were reappointed and served for as much as three years under these temporary conditions. My constituent, one of the temporary contingent, was paid $4.40 per hour. Having no protections as permanent employees, the temporary employees could not protest twelve-hour working days or seven-day workweeks. Nor did such employees have any recourse to summary dismissal.

Sec. 323.4 of the Employee and Labor Relations Manual of the Postal Service defines temporary appointment as "not exceeding" one year.

My constituent has indicated a pattern of exploitation at the Data Site in Memphis. The pattern appears to be intended to secure the most work for the lowest amount.

Would you comment, please?

ANSWER: As I believe you know, the Address Information System Support Center in Memphis was established to support the ZIP + 4 Program. As yet, management has not made a decision on whether its functions will be required on a permanent basis. This being the case, it is entirely proper to staff this facility with temporary employees. While the definition of "temporary appointment" does mention a one-year duration, there is no limit on the number of temporary appointments which an individual may hold following a break of at least one day between appointments.

I would categorically deny that there has been any exploitation of temporary or full-time employees at the A.I.S.S.C. in Memphis. The Postal Service has provided gainful employment to a number of individuals in accordance with all applicable labor laws and regulations.

QUESTION: I undertook a considerable campaign, supported by an employee union and other friends of Knoxville Post Ofice employee Linda Faye Clark. Ms. Clark is a handicapped black female veteran who had been hired as a letter carrier. Within days of the expiration of her 90-day probation, after a series of what Ms. Clark alleges to be harassments, she was fired. Through the support of her union, an EEO complaint, and my own involvement, Ms. Clark was finally reinstated in a probationary status and placed under different supervision.

I do not feel that this case indicates any sensitivity on the part of the Knoxville Sectional Manager to his role with respect to satisfactory employee relations.

Would you comment, please?

ANSWER: I am not prepared to indicate that a single case, or group of cases, whatever their merits, are at all indicative of the labor relations climate at a major postal facility such as Knoxville. As my staff has advised your office in the past, the level of equal employment opportunity complaints at the Knoxville Post Office is not high considering that there are nearly 900 individuals employed there and the Postal Service's position has been vindicated in every case which originated at Knoxville and was appealed to the Equal Employment Opportunity Commission. I was pleased to find out that in the case which you have

mentioned, the issue was settled during the counseling stage of the equal employment opportunity process.

The Postal Service remains firmly committed to equal employment opportunity for all. I share your interest in seeing that the Postal Service offers all applicants and employees a fair opportunity to obtain and advance in postal employment.

QUESTION: Mr. Bolger. On December 20, 1983, I sent the Postal Service a petition signed by over 300 of my constituents who are postal workers in Memphis, Tennessee. They requested a congressional investigation of their working conditions.

At the same time, I forwarded individual complaints from Robert W. Montgomery, Philip Joyner, Gerald Holmes, Charles L. Mitchell, Joe White, Walter B. Hill, Clarence Graffread, Janice Mahoney and Bernie Washington. These individuals indicated to me they feel basic fairness issues are raised by the way that the Memphis Post Office handles the restoration to duty of employees who are injured on or off the job. They also feel there are reprisals in cases where employees have filed complaints through the Equal Employment Opportunity Office, the Merit Systems Protection Board, or postal grievance-arbitration procedures.

Subsequent correspondence from William T. Johnstone, Director of the Office of Government Liaison for the Postal Service, indicates to me that these employees would have to seek relief through litigation or EEO complaints. He indicated that no investigation of the matter is contemplated by the Postal Service.

My Question Is: Why are there so many complaints from the Memphis Post Office? It seems to me the Postal Service would want to improve conditions to keep down the number of such complaints. How does the Memphis situation compare with other regions? Can you supply figures on the complaints about reprisals for grievance or EEO complaints in the

other postal regions. Would you say that the number of complaints of this nature in the Southern Region is unusual? To what do you attribute the large number of complaints about reprisals? What steps are you taking short of an investigation, which Mr. Johnstone says you are not conducting, to see that postal management in Memphis is behaving in a fair and even-handed way?

ANSWER: Although an EEO complainant may assert reprisal as a basis for filing a complaint, such an allegation must relate to prior EEO activity, not prior activity in a collective bargaining agreement grievance procedure. Therefore, although your question went beyond the EEO complaint system, the following data, in which reprisal allegations refer only to an allegation related to prior EEO activity, may be helpful.

	FY '83		FY '84, AP 1-8	
LOCATION	FORMAL COMPLAINTS	REPRISAL ALLEGATIONS	FORMAL COMPLAINTS	REPRISAL ALLEGATIONS
Memphis Post Office	141	42	101	46
Southern Region	4,150	1,492	2,851	1,254
Postal Service Total	10,279	3,476	6,937	2,287

It would be inappropriate to discuss the specifics of existing Memphis complaints due to the pending litigation, nevertheless it can be noted that there are many different factors which appear to affect filing rates throughout the Postal Service. Postal

employees are increasingly aware of their right to utilize the EEO process and have entered that system quite freely. In the Southern Region particularly, many employees file EEO complaints in tandem with grievances under collective bargaining agreements.

In some post offices which appear to have an inordinately high complaint filing rate, the vast majority of the complaints are filed by a few employees. Thus, although the raw number of complaints filed suggests some level of employee concern over a specific situation, it does not go to the critical issue of the merits of the claims. The vast majority of EEO complaints filed do not result in a finding of discrimination.

This is not to say that the Postal Service does not recognize that there are issues and problems to be addressed in the EEO area. Information from the complaint processing and other personnel information system helps identify areas of concern. Affirmative action efforts are directed to resolving those real problems discovered, and better efforts at employer/employee communication have been utilized to deal with misperceptions which, to employees are as real as facts. In this regard, top officials of the Southern Region have met with the vast majority of

Memphis post office managers and local union officials to discuss the Postal Service's responsibility to its workforce. In addition, the Memphis Post Office is one of a number of facilities into which the Employee Involvement/Quality of Working Life process has been introduced.

Finally, it must be noted that there has been a recent management change at the Memphis Post Office, and a new MSC manager will soon be selected. As is the case in all such situations, one of the primary requirements in that selection will be the ability of the successful candidate to deal with human relations issues. We believe this change can also be utilized to reaffirm and reemphasize efforts in dealing with the labor climate in the Memphis Post Office. Once the new manager is selected, an on-site review will be conducted to identify specific problems and recommend appropriate courses of action.

QUESTION: In the past year, the Postal Service settled a $400 million lawsuit involving violations of the Fair Labor Standards Act. It was our understanding that the STARS procurement -- a procurement which had been in the planning/proposal stages for quite some time -- was aimed at assuring compliance with both the Fair Labor Standards Act and the negotiated agreements, and that it would thereby help the Service avoid similar time-and-attendance-related problems in the future.

Furthermore, we understand that the Postal Service had evaluated all of the potential alternatives to STARS, and that each of those alternatives was either operationally or economically unjustifiable as a solution to the payroll problem. Now that the STARS procurement has been cancelled, what do you propose as a solution to the problem of complying with time-and-attendance provisions?

ANSWER: Prior to and concurrent with the settlement of certain lawsuits alleging violations of the Fair Labor Standards Act between 1974 and 1978, the Postal Service made a number of changes in postal policies and procedures to ensure future compliance with the Act and with the terms of collective bargaining agreements. In addition, to avoid any misapplications of these policies and procedures, the Postal Service has increased the monitoring and auditing of the application of time and attendance procedures, with field audit teams regularly reviewing local timekeeper procedures. The Postal Service is now in full compliance with the Fair Labor Standards Act. Existing procedures and a program to upgrade components of the Postal Source Data System adequately address the issue of future compliance.

QUESTION: Within the past three months, the Board of Governors seems to have taken a much more active role in the running of the Postal Service. Two examples of this seemingly-expanded role include

- o the Board's cancellation of the STARS procurement, and
- o their public insistence on what type of position the Postal Service should take in the upcoming labor negotiations.

Do these actions reflect a decision that the Board of Governors will participate more directly in the day-to-day management of the Postal Service? If so, could you explain where the lines of responsibility will be drawn?

ANSWER: I do not believe that either of these actions evidences a willingness on the part of the Governors to delve into the day-to-day operations of the Postal Service. With respect to the STARS procurement, the by-laws of the Board of Governors have for some years reserved to the Board approval of five-year plans and capital investment plans, including the specific approval of each capital investment project exceeding $5 million. Clearly, the STARS program was such that Board approval of its funding was required. As regards the collective bargaining statement, title 39, United States Code, section 205 gives the Board broad authority to direct and control the expenditures of the Postal Service, review its practices and policies, and establish its objectives and long-range goals. The Board's April 3 statement makes clear that its members were concerned over the

more than 80% of postal costs which are labor costs and the effect of the next collective bagaining agreement on the future competitive position of the Postal Service.

QUESTION: Do you believe there is a legitimate government purpose in maintaining second-class mail as a distinct class within the postal system? What is that purpose?

ANSWER: Originally, second-class mail was established for the transmission of periodical publications which were originated and published for the dissemination of information of a public character, or devoted to literature, the sciences, arts, or some special industry, and which had a legitimate list of subscribers. Second-class entry was not available to publications designed primarily for advertising purposes, or for free circulation, or for circulation at nominal rates. All of these restrictions still apply to so-called "general" publications, which are circulated primarily to paid subscribers. In recent years the eligibility standards have been broadened somewhat to permit free "requester" publications to qualify for second-class entry by maintaining a list of requesters analogous to the list of paid subscribers maintained by a general publication. Today, despite the availability of other channels for the transmission of news and useful information, the

Postal Service believes that there is still a need for a class of mail matter devoted to that purpose.

QUESTION: Do you foresee a gradual erosion of the distinctions between second- and third-class mail?

ANSWER: Historically, the favorable rates and service levels afforded second-class mail have exercised a powerful attraction for the publishers of books, advertising sheets, and other third- or fourth-class matter. Over the past one hundred years, postal authorities have attempted, with mixed results, to fend off attempts by these publishers to enter their works as second-class mail. At the same time, the commercial and economic facts of life in the publishing industry have encouraged second-class publishers to exercise great creativity in expanding the advertising value and circulation of their publications. To some extent, the efforts of those on the outside, trying to get into second-class mail, and those on the inside, trying to expand the range of permissible advertising activity, have obscured the line between second- and third-class mail. At present, however, the periodic issuance, primary circulation to either a list of paid subscribers or to a list of requesters, and limited advertising content of second-class mail continue to set it apart from third-class matter.

QUESTION: Rural publishers, in particular, complain that second-class service has declined in recent years. Do you have a solution to their problem?

ANSWER: Throughout the years, the most attractive combination of low postal rates and expedited service in the entire postal system has been provided to the publishers of weekly in-county newspapers. In accordance with the perceived intent of Congress, the Postal Service has followed in the steps of that tradition, and its field personnel will continue to devote significant effort to maintaining, and where necessary improving, the service levels provided to rural publications.

QUESTION: Are you aware of a recent federal court decision in Tennessee that a free newspaper must be awarded a second-class mailing permit if it meets other requirements of that class?

ANSWER: In The Enterprise, Inc. v. William F. Bolger, Civil No. 4-83-108 (E.D. Tenn., Winchester Div., decided 5/15/84), the publisher of a free third-class newspaper challenged the long-standing requirements that a publication must maintain a legitimate list of subscribers, and that it must not be primarily designed for free circulation. So far as the Postal Service is aware, the publisher made no attempt to obtain the necessary list of paid subscribers in order to qualify as a general publication, or to

build a list of requesters to qualify as a requester publication. On March 21, 1984, the Court issued an interlocutory judgment which found that the paid subscriber requirement for second-class publications violated the First and Fifth Amendment rights of the publisher. The Court stood by this decision in its final ruling on May 25, 1984. In addition, the Court awarded the publisher a refund of the difference between the third-class postage he had been paying since the Enterprise started publication in late 1982, and the subsidized within-county second-class postage the Court believed it should have been charged.

QUESTION: How does the Postal Service plan to respond to the ruling? Do you expect to appeal? What impact will the decision have upon Postal Service mail classifications? Do you think the classes can remain distinct if the paid circulation rule is voided?

ANSWER: The Postal Service has requested that the Department of Justice appeal the Court's decision to the Court of Appeals for the Sixth Circuit. As a practical matter, if the Court's ruling is not overturned, it could have a serious impact on the administration of the mail classification system. For over a century, the paid subscriber requirement (augmented in recent years by the requester rule) has provided a reliable and verifiable indicator of reader desire to receive a publication. Accordingly, it has served to

distinguish between a second-class publication which disseminates knowledge and information in response to a public demand, and third-class printed matter which is distributed with no evidence of public demand to satisfy the commercial or other motives of the publisher. If the paid subscriber requirement is ultimately invalidated, it is possible that the line between second- and third-class matter, which is already somewhat smudged in places, would be obliterated.

QUESTIONS FROM SENATOR LEVIN

QUESTION: The Postal Service has proposed raising the First-Class postage stamp to 23 cents. That would be a 575 percent increase in the price of postage since we paid 4 cents for postage before Postal Reorganization in 1970.

The third-class mailer paid a minimum per piece charge of 4 cents in 1970 and under current rates pays 7.4 cents, a 185 percent increase.

Please confirm these statistics.

ANSWER: The rates and associated dates in your questions are somewhat mixed.

The First-Class first-ounce postage rate was 4 cents from August 1, 1958 through January 6, 1963. The minimum per-piece charge for third-class regular bulk mail was 1.5 cents at the beginning of that period and 2.625 cents at the end of that period. the third-class regular bulk minimum per-piece rate was 4.0 cents from July 1, 1969 through March 11, 1972. During this period, the First-Class first-ounce postage rate was 6 cents through May 15, 1971 and 8 cents after that date. Current rates are 20 cents for First-Class and 11.0 cents for third-class regular bulk. The proposed rates are 23 cents for First-Class and 13.2 cents for third-class regular bulk.

The current third-class regular bulk rate of 7.4 cents is a minimum piece rate available only for third-class regular bulk mailings of carrier-route presorted mail. The difference between this rate and the current "required" presort rate of 11.0 cents reflects a portion of the direct presortation cost savings realized by the Postal Service as a result of the additional preparation by the mailers. This carrier-route presortation option was not available to third-class mailers before January 28, 1979.

First-Class and Third-Class Regular Bulk Rate Comparison

	First-Class First Ounce Letter Rate (cents)	Third-Class Regular Bulk Minimum Rate Per Piece (cents)
August 1, 1958	4	1.5
January 1, 1959	4	2.0
July 1, 1960	4	2.5
January 7, 1963	5	2.625
January 1, 1964	5	2.75
January 1, 1965	5	2.875
January 7, 1968	6	3.6
July 1, 1969	6	3.8/4.0 1/
May 16, 1971	8	4.0/4.2 1/
March 12, 1972	8	5.0
Current Rates	20 2/	11.0 2/
Proposed Rates	23 3/	13.2 3/

1/ Lower rate applied to first 250,000 pieces mailed during a calendar year.

2/ Current rates for mail presorted to 5 digits: First-Class, 17 cents; third-class, 9.3 cents. Current rates for mail presorted to a carrier route: First-Class, 16 cents; third-class, 7.4 cents.

3/ Proposed rates for mail presorted to 5 digits: First-Class, 20 cents; third-class, 11.1 cents. Proposed rates for mail presorted to a carrier route: First-Class, 19 cents; third-class, 9.5 cents.

The percentage rate increases from the first date that First-Class Mail was 4 cents are:

	First-Class (cents)	Third-Class (cents)
August 1, 1958	4	1.5
Proposed Rates	23	13.2
Percentage Increase	475%	780%

The percentage increases from the last date that First-Class Mail was 4 cents are:

January 6, 1963	4	2.5
Proposed	23	13.5
Percentage Increase	475%	440%

QUESTION: Is the consumer paying part of the advertiser's (third-class mailers) mail costs by these disparate postage increases? What can the Postal Service do to close the gap between those rates.

ANSWER: As was pointed out above, the rate increases are not disparate. Third-class regular bulk mail makes a major contribution to the institutional costs of the Postal Service, and as a result, other mail classes experience lower rates.

QUESTION: Is the primary mission of the Postal Service to deliver the First-Class letter? How important to the future of the Postal Service is third-class mail?

Why is the proposed rate increase for First-Class greater than the rate increase for third-class?

ANSWER: The Postal Reorganization Act specifies:

> The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary and business correspondence of the people. (39 U.S.C. 101(a))

Third-class mail is important to the Postal Service now and, as projected, into the future. In the current rate case, the Postal Service has projected that third-class will represent about 16 percent of its total revenues. Third-class regular bulk revenues are expected to exceed costs by about $1.3 billion.

The proposed rate increase for First-Class Mail (15.9 percent) is <u>smaller</u> than the proposed rate increase for third-class regular bulk mail (21.9 percent).

STROM THURMOND
SOUTH CAROLINA

The President Pro Tempore
UNITED STATES SENATE
April 16, 1984

Senator Ted Stevens
Chairman
Subcommittee on Civil Service, Post Office
and General Services
U.S. Senate
Washington, D.C. 20510

Dear Ted:

As Chairman of the Subcommittee on Civil Service, Post Office, and General Services, I thought you might be interested in the attached copy of a letter I have sent Senator Roth.

Any assistance you might be able to render regarding this matter would be most welcome.

With kindest personal regards and best wishes,

Sincerely,

Strom

Strom Thurmond

ST/bq
Enclosure

STROM THURMOND
SOUTH CAROLINA

The President Pro Tempore
UNITED STATES SENATE
April 16, 1984

Senator William Roth
Chairman
Senate Committee on Governmental Affairs
U.S. Senate
Washington, D.C. 20510

Dear Bill:

I have received a number of complaints from one of my constituents, Mr. Peter E. Frohlich, President of Bommer Industries, Inc., regarding implementation by the U.S. Postal Service of the centralized mail delivery program.

As you know, institution of this program has resulted in the Postal Service buying, distributing, and maintaining clustered mail receptacles. While I greatly favor efforts to reduce cost and promote efficiency, serious questions have been raised regarding the effects of this program on the 15,000 small retail hardware distributors who sell and often install and repair mailboxes. For your information and use, I have attached a copy of a February 13, 1984, Wall Street Journal article that discusses this, as well as other concerns regarding the centralized mail delivery program.

It is my understanding that Postmaster General Bolger will be appearing before the Senate Committee on Governmental Affairs on April 25, 1984, to present the Postmaster General's Annual Report to Congress. If possible, at that time, I would appreciate your asking Postmaster General Bolger to respond to the issues raised by the attached article. I would especially be interested in learning of any projected cost savings expected to be realized by implementation of this program and how any such figures were determined.

Thank you for your consideration of this important matter.

With kindest personal regards and best wishes,

Sincerely,

Strom

Strom Thurmond

ST/bq
cc:Senator Stevens

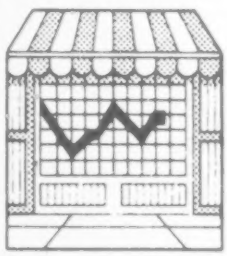
(From The Wall Street Journal, February 13, 1984)

Postal Service Hurts Makers Of Multiple-Unit Mail Boxes

By Sanford L. Jacobs
Staff Reporter of The Wall Street Journal

THE SMALL COMPANIES that make most of the mail boxes in housing developments prospered until a few years ago. Their customers were hundreds of distributors that then sold the boxes to the thousands of contractors and building owners who installed them.

Auth Electric Co. made mail boxes for about 40 years. The closely held, Deer Park, N. Y., concern could count on about $4.5 million in mail-box sales a year, says Michael Gioseffi, president. But the company, which also makes apartment-building intercom systems, is quitting mail-box production. "It used to be a good business," Mr. Gioseffi says. "Now we can't make money out of it."



The once stable market for multiple-unit mail boxes fell apart quickly after the U.S. Postal Service became the dominant buyer in 1980. The service started buying thousands of the boxes and installing them, relieving builders of the cost and responsibility.

The boxes bought by the Postal Service are known as neighborhood delivery and collection box units, or cluster boxes. They are installed in new housing developments that can have either cluster-box service or delivery to boxes at the curb outside each home.

The post office prefers cluster boxes because they allow mail for a number of homes to be delivered to a central point, saving time, fuel and money. Residents tend to favor curb-side delivery for its convenience.

BUILDERS, HOWEVER, usually make the decision before homes are occupied, and the Postal Service is frank to admit why it is willing to provide cluster boxes to contractors and to maintain them at no charge. "By giving them cluster units," a postal spokesman says, "we steer them to cluster rather than curb-side service."

The post office has bought as many as 131,000 units in a 12-month period, spending as much as $23 million. It quickly became the only buyer of these units, a situation known as monopsony. Like a classic monopsonist, the Postal Service has driven down prices by urging suppliers to undercut each other. The price of one kind of unit dropped to $150 from $800 in four years.

Manufacturers complain that the post office has ignored its own rule requiring that bids be solicited for only 100 units at a time. There have been bid solicitations for as many as 9,000 units, says Jeffrey Q. Smith, of the New York law firm of Cadwalader, Wickersham & Taft, which represents the Builders Hardware Manufacturers Association. The post office has admitted the violations. To avoid them, it ordered field offices to solicit prices on no more than 100 units, but allows purchases to exceed 100 units at a time if multiple purchase orders, each for no more than 100 units, are issued.

THE FIRST BUSINESSES hurt were 250 distributors and manufacturers' representatives shunted aside when manufacturers started selling direct to the Postal Service in order to offer lower prices. "The distributor has been cut out of a significant piece of business," says Richard Hornaday, executive vice president of the Door & Hardware Institute, a distributors group.

Clarence W. Pitt, a manufacturers representative in Upper Darby, Pa., says he lost $250,000 of annual sales to a distributor that quit buying cluster boxes when the Postal Service started installing them. "It hurt us immensely," Mr. Pitt says.

The large number of postal purchases attracted new manufacturers to cluster-box production. The number of suppliers tripled to 15 in a short time. The increased competition drove prices down further. Some manufacturers cut corners to offer even lower prices, and quality deteriorated.

A recent General Accounting Office memo says the Postal Service has bought hundreds of substandard units. Defects include locks that don't work and boxes with sharp edges, poor paint and rust. If the deterioration in quality isn't reversed, the GAO memo quotes a postal official saying, defective units could become "a long-term maintenance and customer-relations nightmare."

MANUFACTURERS WANT the Postal Service to quit buying the boxes. If the post office wants cluster-box service so badly, they say, it should mandate it. But the postal spokesman says that would cause public-relations problems. Supplying the units to induce acceptance, he says, is better than trying to force the service on new neighborhoods entitled to a choice.

Meanwhile, manufacturers are moving into other markets to make up for lost cluster-box profits.

American Device Manufacturing Co., a closely held company, dropped out of the mail-box competition last year because prices had dropped so much. Don W. Bixby, president, says he plans to make up $2 million of lost revenue with a new line of door hardware and other products.

Bommer Industries Inc. still bids on the units. But its profit margins have shrunk, says Peter Frohlich, president of the closely held company. The 100-year-old concern starts construction soon of a $2 million metal-plating facility as part of a move into furniture-hardware production.

What is the Postal Service's response to the companies' complaints? Recently it wrote the manufacturers' association: "It is an uncomfortable fact of economic life that the workings of any market will not produce equally cheerful results for all producers or sellers."

36-665 O—84——7

QUESTION FROM SENATOR THURMOND

The Postal Service believes that the attached two items of correspondence, to Mr. Frank S. Swain, Chief Counsel for Advocacy, Small Business Administration and Mr. Jeffrey Q. Smith of Cadwalader, Wickersham and Taft, address all of the issues raised in the Wall Street Journal article referred to the Committee by Senator Thurmond.

THE POSTMASTER GENERAL
Washington, DC 20260-0010

FEB 27 1984

Dear Mr. Swain:

This is in response to your comments regarding the Postal Service procurement of equipment for use in our centralized delivery efforts. I welcome the opportunity to respond to your concerns from our perspective.

As you have noted, the Postal Service adopted in the final Federal Register notice the proposal that the Postal Service decentralize its procurement of mail boxes and limit the size of individual procurements, which was recommended by your office. This was designed to "allow distributors as well as small manufacturers to bid at the district or metro level thus preserving the competitive structure of the industry."

This policy was conveyed in a March 9, 1981, letter from our Assistant for Procurement Policy to the General Managers of Procurement in each of our five regions. It specifically stated that "units [Neighborhood Delivery and Collection Box Units (NDCBU)] should be purchased at the lowest administrative level possible in small quantities."

On August 5, 1981, in another letter to our Regional General Managers of Procurement, this requirement was reiterated. The letter stated that "NBUs should be purchased at the lowest administrative level possible in small quantities. If at all possible NBUs should be bought from local merchants . . . ." It went on to add, "Obviously, competition should be obtained to the degree possible."

On April 1, 1983, the Senior Advisor for Procurement Policy sent another letter concerning the procurement of NDCBUs to our field procurement organizations. Among other things, the letter stated, "Once again I must strongly emphasize that

orders for Neighborhood Delivery and Collection Boxes must be awarded to approved source vendors in quantities not to exceed 100 units. This also means that orders are not to be quoted in quantities in excess of 100 units."

A recent GAO investigation was conducted into the same issue at the request of Congressman Glenn English, Chairman, Subcommittee on Government Information, Justice and Agriculture. The Postal Service cooperated fully in that investigation, and we were provided a copy of GAO's findings.

GAO found that, in March 1983, local personnel in the Postal Service's Southern Region (Dallas Procurement Services Office) improperly deviated from the established Postal Service procedure that cluster boxes be procured in lots of 100 or less. In a procurement of cluster boxes, the Dallas office obtained price quotations on 9,000 units and then prepared and submitted 90 purchase orders for 100 units each to the firm quoting the lowest price. Postal Service Headquarters called this deviation to all its regions' attention, and the Dallas procurements are now being made based on quotes for lots of 100 boxes or less. I have been advised that all our procurements are now in compliance with this policy.

The Postal Service's policy commitment to the decentralized procurement of MDCBUs in accordance with the Federal Register notice has been clear and consistent. When instances of misapplication in the execution of that policy have been brought to our attention, we have taken immediate action to correct the matter and prevent a recurrence.

You have indicated in your letter that this informal and decentralized procurement program is susceptible to serious abuse. We find this an ironic complaint because it was at the behest of the Small Business Administration and the smaller suppliers and dealers that the USPS adopted this procurement approach.

Because of the relatively small dollar value of these procurements, the USPS uses informal purchasing procedures (under $25,000) in accordance with the Postal Contracting Manual. Informal purchasing involves negotiated procurements as opposed to formally advertised (sealed bid) ones. The contracting officer may solicit for the requirement orally or in writing. This approach is a sound business arrangement and is practiced in various forms throughout the federal procurement

sector. The entire process itself is simple, effective, and fair. Considering the 100 unit limitation per solicitation, it is also one of the few means available to speed the procurement of our requirements.

You have also suggested that the USPS is uninformed about the program's extent and costs. I have enclosed, for your information, a national summary of our FY 83 purchases of NDCBUs which lists total units purchased and dollar value. You will note that procurements were made from 14 suppliers and manufacturers. This hardly supports a conclusion that the program is anticompetitive.

As explained at length in the Federal Register, each delivery to a NDCBU saves the Postal Service approximately $26 per year in comparison to curb delivery, and $43 per year in comparison to door delivery. These estimates from 4 years ago have recently been updated for inflation and other factors. Currently we estimate savings of $30 per year over curb delivery and $52 per year over door delivery. Experience indicates that these savings in operating costs will not only continue, but increase from year to year. In addition to the cost savings, the use of NDCBUs allows postal managers to plan carrier routes more efficiently, to standardize delivery procedures, and to accelerate the extension of delivery services to new developments.

While we acknowledge that the procurements of NDCBUs have exceeded the original estimates provided in the Federal Register, this has not occurred without the knowledge and participation of the Builders Hardware Manufacturers Association (BHMA) and other suppliers involved in this industry. We also do not think that this has created an anticompetitive climate.

It is an unhappy fact of our free enterprise system that the workings of the marketplace will not produce the same results for all producers and sellers. However, that fact does not justify the termination of a procurement program which is clearly within the statutory authority of the Postal Service, and which produces tangible benefits for the nation's postal system and its customers.

The current NDCBU procurement procedure places a heavy administrative burden on the Postal Service, because it requires multiple purchase actions instead of larger, more

efficient procurements. As the MDCBU market has naturally evolved, the number of approved manufacturers has increased, and the former role of distributors in the marketing process has disappeared. In view of this changed structure of the MDCBU market, the reasons that justified the previous rule are not as valid today as they were at that time.

We also are looking at improving the procurement process in other significant ways. Standardization is being pursued jointly by Procurement and Supply, Engineering and Technical Support, and Delivery Services Departments. We intend to undertake the development and testing of the next generation of centralized delivery equipment, which can be built to a design specification rather than to the current performance specification. When those specifications are developed and will permit changes in our procurement methods, appropriate advance notice will be published for comment in the Federal Register. This should encourage even more manufacturers to participate in the program.

Sincerely,

(Signed) W. F. Bolger

William F. Bolger

Enclosure

Mr. Frank S. Swain
Chief Counsel for Advocacy
U.S. Small Business Administration
Washington, D.C. 20416-0001

FY 1983 PURCHASES OF NDCBUs

MANUFACTURER	TYPE I Units/Cost		TYPE II Units/Cost		TYPE III Units/Cost		TOTAL Units/Cost	
Al's Tool & Die	2	324	2	412	3	692	7	1,428
American Device	201	35,778	336	78,288	514	132,612	1,051	246,678
American Locker	1,410	204,450	1,683	311,355	2,350	465,300	5,443	981,105
Ara Alum	44	6,248	49	8,477	62	12,834	155	27,559
Auth Electric	5,313	706,629	3,801	627,165	5,380	1,097,520	14,494	2,431,314
Bin Lin	50	11,174	100	20,605	300	65,871	450	97,650
Bommer Industries	2,257	336,293	2,861	532,146	4,551	973,914	9,669	1,842,353
Cutler-Federal	6,104	872,872	7,603	1,338,128	6,485	1,290,515	20,192	3,501,515
Florence	3,506	525,900	3,291	589,089	4,098	852,384	10,895	1,967,373
Hudson	419	67,459	517	102,883	1,599	380,562	2,535	550,904
Phoenix II	15	2,079	35	6,023	139	21,022	189	29,124
Sun-Lite	1,108	158,444	1,334	240,120	1,512	303,912	3,954	702,476
Superior	2,660	281,960	3,422	448,282	14,970	2,230,530	21,052	2,960,772
United Business Equipment	1	410	---	---	81	---	82	410
TOTAL	23,090	3,210,020	25,034	4,302,973	42,044	7,827,668	90,168	15,340,661

December 22, 1983

Jeffrey Q. Smith, Esq.
Cadwalader, Wickersham & Taft
One Wall Street
New York, New York 10005

Dear Mr. Smith:

Thank you for your letter and attached position paper of October 27, 1983, on behalf of the Builders Hardware Manufacturers Association (BHMA), concerning Postal Service procurement of Neighborhood Delivery and Collection Box Units (NDCBUs). I have reviewed this correspondence, and consulted with the operating management of the Postal Service regarding its contents. The attached memorandum evaluates the assertions in the position paper in detail. In general, we believe that you have presented a decidedly tendentious view of the procurement activities of the Postal Service, and have not fairly described the nature of those activities, the authority for them, or the benefits they offer to the postal system and its customers.

Our present regulations are the outgrowth of a public rulemaking in which all interested parties were offered a full opportunity to participate. Your client actively participated in this rulemaking through different legal counsel. The others who participated in the rulemaking process included numerous members of Congress, the Small Business Administration, other trade associations (such as the Door and Hardware Institute and the American Hardware Manufacturers Association), and individual manufacturers and retailers. Our present operational practices reflect both the final rule which was the outgrowth of that rulemaking process and informal consultations which have been carried on with interested parties since the rule was adopted.

I hope you will appreciate that national postal policies must reflect a reasonable balance of all relevant considerations and views, and that we simply cannot tailor such policies to meet the specific requirements or position of any particular private party or association.

Sincerely,

Robert L. Hardesty
Chairman

Enclosures

MEMORANDUM re: Position Paper of October 27, 1983, by Attorneys for BHMA Concerning NDCBU procurements

This memorandum evaluates the position paper of October 27, 1983, furnished to the Postal Service by Cadwalader, Wickersham & Taft, presently attorneys for the Builders Hardware Manufacturers Association (BHMA), concerning postal procurement of Neighborhood Delivery and Collection Box Units (NDBCU's). That paper contends, in summary, that the Postal Service's procurement program is unauthorized.

Broad statutory authority has been given to the Postal Service. As an independent establishment of the executive branch of the Government of the United States,[1] entrusted with the operation of the Nation's postal system, the United States Postal Service is directed to "plan, develop, promote, and provide adequate and efficient postal services at fair and reasonable rates and fees",[2] and to "provide prompt, reliable, and efficient services to patrons in all areas and . . . to all communities."[3] To this end, the Postal Service is charged with the responsibility "to maintain an efficient system of collection, sorting, and delivery of the mail nationwide", and "to establish and maintain postal facilities of such character and in such locations that postal patrons throughout the Nation will, consistent with reasonable economies of postal operations, have ready access to essential postal services."[4] The concepts of service, efficiency, and economy are thus intertwined in the statutory role of the Postal Service.[5]

1/ 39 U.S.C. § 201.

2/ 39 U.S.C. § 403(a).

3/ 39 U.S.C. § 101(a).

4/ 39 U.S.C. § 403(b)(1), (3).

5/ Under 39 U.S.C. § 101(a), postal costs may not be apportioned to impair the overall value of postal service to the people.

To accomplish these objectives, the Postal Service is assigned the specific powers "to provide for the . . . delivery . . . of mail", and to both "determine the need for . . . facilities and equipment" and "provide such . . . facilities and equipment as it determines are needed."[6] The Postal Service is given, moreover, power to acquire any property or interest therein "as it deems necessary or convenient as the transactions of its business."[7] The Postal Service is also afforded the general powers "to adopt, amend, and repeal such rules and regulations as it deems necessary", "to . . . determine the character of, and necessity for, its expenditures", and "to have all other powers incidental, necessary, or appropriate to the carrying on of its functions or the exercise of its specific powers."[8] The authority of the Postal Service in these matters is not narrow, and is specifically designed to meet the needs of "a federal agency . . . whose activities are national in scope and are geared to meet varied conditions and circumstances throughout the country."[9]

To facilitate the execution of its powers, the Postal Service has continually tailored its delivery methods to fit the requirements of residential, business, and rural areas, and has issued detailed regulations and management instructions governing the provision of delivery services. Consistently, the objective of these actions has been to assure that postal customers in all areas receive efficient mail delivery at reasonable costs; and postal delivery policies have repeatedly withstood judicial scrutiny:

> . . . Furthermore, under other provisions of the Postal Reorganization Act, the Postal Service must exercise its authority over postal costs -- including delivery costs -- so that postal costs are kept within the budgetary limits established by total income to be derived from revenues and appropriations. 39 U.S.C. § 3621; see also, 39 U.S.C. § 403(a).
>
> Although Postal Service regulations authorize different methods of providing delivery service to different mail users, the choice of method is made administratively strictly on the basis of relevant

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6/ 39 U.S.C. § 404(a)(1), (3).

7/ 39 U.S.C. § 401(5).

8/ 39 U.S.C. § 401(2), (3), (10).

9/ Rockville Reminder, Inc. v. United States Postal Service, 350 F. Supp. 590, 593 (D. Conn. 1972), aff'd, 480 F.2d 4, 7 (2d Cir. 1973).

> objective criteria set forth in the regulations described above, and applied nationwide. These regulations are neither arbitrary nor capricious. . . . The Postal Service's delivery regulations are not unreasonably discriminatory because the distinctions made by the regulations are reasonably related to the effectuation of the pertinent objectives of the Postal Reorganization Act, which are provision of efficient mail delivery services at reasonable costs.10/

Under the statutory and regulatory standards discussed above, the purchase, installation, maintenance, and replacement of centralized delivery mail receptacles are clearly an appropriate activity for the Postal Service. As explained at length in the Federal Register notices announcing the intentions of the Postal Service in this matter,11/ each delivery to a NDCBU saves the Postal Service approximately $26 per year in comparison to a curb delivery, and $43 per year in comparison to a door delivery. These estimates are over four years old; current estimates would be much greater. Moreover, experience indicates that these savings in operating costs will not only continue, but increase from year to year.12/ In addition to cost savings, the use of NDCBUs allows postal managers to plan carrier routes more efficiently, to standardize delivery procedures, and to accelerate the extension of delivery services to new developments.13/ Needless to say, these purposes are reasonably related to the statutory duties and authority of the Postal Service.

10/ Grover City v. United States Postal Service, 391 F. Supp. 982, 986 (C.D. Cal. 1975); Parsons v. United States Postal Service, 380 F. Supp. 815, 818 (D. N.J. 1974). See also, Bradley v. United States Postal Service, 554 F. 2d 186 (5th Cir. 1977); Egger v. United States Postal Service, 436 F. Supp. 138 (W.D. Va. 1977); Ludewig v. Wolff, 492 F. Supp. 1048 (S.D. Tex. 1980).

11/ See, 45 Fed. Reg. 84827 - 84828 (December 23, 1980) (proposed rule); 46 Fed. Reg. 15263 - 15266 (March 5, 1981) (final rule).

12/ Contrary to BHMA's assertions, these figures make due allowance for the costs incurred by the Postal Service in NDCBU procurement, installation, and repair. See, 46 Fed. Reg. 15264.

13/ Domestic Mail Manual § 155.12b.

From the customer's standpoint, centralized delivery to a NDCBU presents a number of advantages. Not the least of these is the security of a locked mail receptacle which is accessible only to the customer and the mail carrier. NDCBU compartments and parcel lockers are also more capacious than the typical residential letter box. In addition, the customer is offered a measure of confidentiality, because NDCBU compartments display a consecutive numbering scheme, rather than the street address of the customer. Finally, with mimimal impact on customer convenience, the use of Postal Service-supplied NDCBUs affords a considerable financial saving to the developer and residents of a delivery area. Again, these considerations of security, efficiency, convenience, and cost are clearly related to the statutory mission and authority of the Postal Service.

A considerable portion of BHMA's lengthy position paper discusses supposed Postal Service violations of the "traditional" separation of functions and responsibilities between the Postal Service and the recipients of the mail. This discussion is not without its flaws. First, as expressed in the Senate report on the Postal Reorganization Act, a primary purpose of that legislation was to sweep away traditional barriers to the efficient operation of the Nation's postal system:

> The fact that the Department is able to carry its massive burden -- handicapped as it is by an archaic organizational arrangement and inadequately equipped with a creaking physical plant 40 years out of date -- is a tribute to the perseverance and loyalty of the rank-and-file postal employee. He now looks to Congress for better days.
>
> The committee's inquiries and every responsible study show that the Postmaster General is blocked or undercut at every turn by a labyrinth of postal statutes echoing every postal concern, interest, or whim expressed by Congress over a 200-year period. Laws have changed laws and have added to the body of them so that, by accretion, they have multiplied, decade by decade, leaving the Postmaster General bound in his own house. Twist and turn as he may, he cannot function in the public interest as a responsible manager.
>
> The committee in no way deprecates the system of checks and balances established in the law over the years to insure that public policy as determined by Congress shall be followed by the Postmaster General. But it has found that, by the process of accumulation, the laws controlling the governance of the Department have become

excessively restrictive and that it is not too soon for a complete break with the past.14/

Furthermore, there are good and substantial reasons for Postal Service procurement of cluster box delivery units. As discussed more completely in the Federal Register documents announcing this procurement program,15/ previous efforts to encourage voluntary customer purchases of central delivery units were only marginally successful, because of price resistance to the initial procurement of such units, and because of customer inattention to the proper maintenance of the units. It is no answer to propose, as BHMA does in its lengthy position paper, that the Postal Service should make the use of NDCBUs compulsory. That approach would shift the problems of high procurement costs and insufficient maintenance back to postal customers without solving them, and would ignore the fact that NDCBUs are not universally suitable for use in all circumstances on all delivery routes.

Although the past practices of the Post Office Department do not necessarily determine the course of management decisions in the Postal Service, it should additionally be noted that postal procurement of cluster delivery facilities is by no means a revolutionary development in the postal system. Former 39 U.S.C. § 6009 authorized the Postmaster General to "erect and maintain community boxes and suitable sheltered racks or stands for rural mail boxes, in such selected localities as he determines."16/ Moreover, the private express statutes have long forbidden the deposit of unpaid matter in "any letter box established, approved, or accepted by the Postmaster General for the receipt or delivery of mail matter on any mail route."17/ Although the specific purposes of these two provisions are related only indirectly to current postal policies regarding NDCBUs, they nevertheless illustrate the considerable latitude of the authority which postal management has historically exercised over delivery methods and receptacles.

Finally, BHMA's paper assailed the allegedly "monopsonistic, anticompetitive" effects of Postal Service procurement of NDCBUs, claiming that "nothing less than the survival of an industry" is at stake. To the contrary, the NDCBU industry is highly competitive, with more manufacturers

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14/ S. Rep. No. 91-912, 91st Cong., 2d Sess., 2 (1970).

15/ See, 45 Fed. Reg. 84827 (December 23, 1980).

16/ See, Act of May 29, 1928, ch. 899, 45 Stat. 985.

17/ See, 18 U.S.C. § 1725; Act of May 7, 1934, ch. 220, § 2, 48 Stat. 667.

selling more units than ever before; and the asserted difficulties of BHMA's membership are attributable to shifts in the commercial environment, not to the actions of the Postal Service.

The NDCBU procurement policies of the Postal Service were developed in an attempt to involve distributors and small manufacturers in the procurement process.18/ The Postal Service hoped to achieve this objective by decentralizing the procurement authority for delivery units, which had previously been purchased at the national or regional level. However, the Postal Service cannot, and indeed should not, dictate the structure or business practices of the hardware industry. The Postal Service cannot and should not force small manufacturers to establish a chain of distributors and cease the practice of bidding directly for procurement contracts. Neither can it, nor should it, stop larger manufacturers from bidding against their own distributors. Such competitive practices reflect the ordinary workings of a competitive market. Similarly, the number of 100-unit lots procured by the Postal Service is determined by local needs, not by the application of a central formula.

Contrary to the claims in BHMA's letter and position paper, the Postal Service has established and applied its NDCBU procurement practices with appropriate regard for the businesses that BHMA and other trade associations represent. However, the Postal Service, in purchasing NDCBU's, is largely constrained to participate in the commercial and economic environment established by its suppliers or their market; and the Postal Service must generally work with any distributor or manufacturer who provides the lowest bid on a particular contract. It is an uncomfortable fact of economic life that the workings of any market will not produce equally cheerful results for all producers or sellers. However, in the present context, that fact does not justify the termination of a procurement program which is clearly within the statutory authority of the Postal Service, and which produces tangible benefits for the Nation's postal system and its customers.

18/ As adopted in 1981, DMM § 151.4 provides that NDCBUs and parcel lockers will be procured locally in lots not exceeding 100 units.

O